FINANCIAL TIMES

Ukraine

Rich rewards await rugged entrepreneurs



Zimbabwe

Murerwa's budget balancing act

Laser welding

Deep CO₂ beam creates 'dry tunnel' Technology, Page 19



Today's survey

Investment into the UK

Separate section

World Business Newspaper http://www.FT.com

THURSDAY JULY 24 1997

Burma and Laos become latest Asean members

Burma and Laos have become members of the Association of South-East Asian Nations amid controversy over the group's attempts to broker a settlement in Cambodia. Cambodia should have joined Asean with the two other entrants, but its invitation was frozen after the recent coup. Page 12; Editorial comment, Page 11; Asean role in Cambodia, Page 4

Uister talks setback: The UK government's proposals for decommissioning paramilitary arms in Northern Ireland have been rejected by Ulster's three main pro-British unionist parties in a vote at multi-party talks. The rejection jeop-ardises planned negotiations in September with Sinn Féin, the political wing of the IRA. Page 8

Simitis threatens EU expansion veto



Greek prime minister Costas Simitis says Greece has not ruled out vetoing European Union membership for countries in central and eastern Europe if Cyprus is excluded from the next wave of enlargement. Mr Simitis, left, added that Greece would still take maintain a firm line in

its disputes with Turkey, notably over Cyprus and control of the Aegean Sea, while seeking to build on this month's Madrid agreement to avoid the use of force. Page 2; Thaw in Aegean,

israeli budget cuts: Israel's government has agreed a Shk800m (\$227m) cut in this year's budget, in spite of opposition from defence minister Yitzhak Mordechai, and four other ministers. The cut of 1.1 per cent hits all but three of the 18 ministries, and is intended to reduce the budget deficit to 2.8 per cent of GDP. Page 7

Baht hits new low: The Thai baht plunged to new historic low and other south-east Asian currencies also weakened ahead of an Asian central bankers' meeting. Page 4

Students face fee rise: UK college students whose education is currently free – face annual tuition fees of around £1,000 from next year under proposals which, added to loans for living costs, would push the cost of a three-year degree course to around £8,000 (\$13,360).

New Chinook crash probe: The cause of the 1994 Chinook helicopter crash in Scotland, which killed 25 of the UK's top intelligence experts, has been called into question. The new parliament's defence committee is to ask for more explanation of the air force verdict of pilot

Reuters profits dip: Plans by Reuters, the UK media and information group, to buy back up to £200m (\$334m) of shares were overshadowed by a dip in half-year 3 per cent fall in pretax profits to £333m on sales 2 per cent lower at £1.4bn. Page 13; Lex. Page 12

Japan seeks new tourists: Japan hopes to double its number of overseas visitors to 7m by 2005. Although tourism in the East Asia-Pacific region has one of the world's fastest growth rates tourism to Japan is depressed, said the government. Page 4

UK economy booms: The UK's economy is fast reaching its capacity limits, according to new figures which show that retail spending has hit its highest level since the end of 1988. The figures helped push up the pound to an eightyear high against the D-Mark. Page 12 and Lex; German banking, Page 13

Lilly shares rise on new drug: Shares in Eli Lilly, the US pharmaceuticals company, have risen by 2 per cent despite the announcement of a second quarter loss. Investors welcomed news that regulators may soon approve for a new drug to treat osteoporosis. , and strong sales growth for other newly-launched drugs. Page 18

Prehistoric catastrophe: The Earth was struck by two massive asteroids or comets in quick succession 35 million years ago, according to new research by Canadian scientists. They believe the double blow may have altered the climate and led to the biggest mass extinction of life since the death of the dinosaurs.

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Crisis ends as US company satisfies Brussels' competition fears Boeing gets merger approval

Michael Skapinker in London and Bruce Clark in

The European Commission yesterday finally approved plans for a merger between Boeing and McDonnell Douglas, after eleventh hour concessions by Boeing satisfied Brussels' concerns about the effect of the deal on competition in the European market.

Announcing the decision which ended five months of argument - Mr Karel Van Miert, the competition commissioner, called for closer EU-US co-operation on competition policy to avoid repetition of a crisis which took the two continents to the brink of a trade war.

An ebullient Mr Van Miert lescribed the deal as "a vital battle" in terms of competition policy and said the conditions he had been striving for had largely been agreed.

These were a commitment by Boeing to make available licences and patents from McDonnell Douglas's military research programmes to rival firms; agreement to establish McDonnell Douglas's civilian operations as a separate legal entity inside Boeing; and a promise not to abuse its dominant position to influence the aircraft supplies sector.

Most importantly - as it was on this point that negotiations became deadlocked - Boeing agreed to drop the exclusivity clauses from 20-year supply deals it has signed with three US airlines, and not to sign any more such pacts for 10



European Union competition commissioner Karel Van Miert at a Brussels news conference yesterday Root

comfortable with the agree-mission at the outset of these their contracts. American, tions that Brussels had taken ment that we've reached." But talks." Airbus said it would which has ordered more than into account "other political" Airbus Industrie, the European consortium whose interests Mr Van Miert had been seeking to defend, said it regretted the "arrogant and confrontational attitude of the US in these dis-

Airbus added: "The unnecessary tension could have been avoided had Boeing proposed Mr Philip Condit, Boeing's true remedies to the contenchairman, said: "We're very tious points raised by the Com-

"vigilantly monitor" Boeing's conduct to ensure it adhered to the conditions agreed with the Commission.

The three US airlines said Boeing's decision to remove the exclusivity clauses would have no effect on their ordering policy. American, Continental and Delta airlines said they would go ahead with the

600 Boeings over the next 20 years, said: "We are quite satisfied with the fleet decisions we have made. We don't believe anything is going to

Mr Jacques Santer, president of the European Commission. congratulated Mr Van Miert for resisting strong pressure from across the Atlantic and

and may take a stake in it

once it is privatised in the

into account "other political interests" in its assessment of

He also announced that the Commission intended to launch an initiative in the autumn to strengthen the aerospace sector in Europe. In Germany, Mr Günter

> Continued on Page 12 Europe's pyrrhic victory

Stet avoids Helms-Burton sanctions

By Bruce Clark in Washington. Guy de Jonquières in London and Robert Graham in Rome

Stet, the Italian telecommunications group, has reached an understanding with the State Department and ITT, the US conglomerate, which is intended to shield Stet from sanctions under some months ago that they America's Helms-Burton anti- could fall foul of Title IV of the

waive the application of sanctions to Stet, after Stet agreed to compensate ITT for prop-

As one of the largest European investors in Cuba, Stet has been vulnerable to the penalties demanded by the Helms-Burton law against foreign companies "trafficking" in assets expropriated by the Castro regime.

The State Department warned several Stet executives act, which authorises the US The State Department indi- to deny entry visas to execuated yesterday it was ready to tives, directors and shareholders of companies engaged in "trafficking".

ITT, which operated the before the Communist take- assets.

over, said it had negotiated a "moratorium" with Stet, under which it would not exercise its right under Title III of the act to sue the Italian group for dealing in the property.

No details were announced, but FTT is understood to have committed itself not to sue Stet for a 10-year period in return for an undisclosed payment Since Helms-Burton became

law, President Bill Clinton has repeatedly waived the application of Title III, which permits individuals and companies to sue in US courts for compensaerty confiscated by the Castro Cuban telephone system tion for expropriated Cuban

However, Stet is helieved to European Union officials have negotiated the deal with said the Stet agreement would ITT to avoid creating problems help to improve the atmoin the US for a proposed sphere of negotiations with the link-up between its Telecom United States, aimed at achieving a settlement of the Italia affiliate and AT&T, the US telecommunications combitter transatlantic dispute pany. AT&T plans several venover Helms-Burton by tures with the Italian group mid-October.

But a spokesman for Senator

Continued on Page 12

UK drinks groups take new look at LVMH proposals

Grand Metropolitan and Guinness of the UK are prepared to reach a deal this year to combine their drinks businesses with that of French

luxury goods group LVMH. But agreement will only be achieved if the benefits are divided fairly among shareholders of the three groups, Mr John McGrath, GrandMet chief executive, said yester-

day.
"We are going to look at this very unemotionally on a factual basis," said Mr McGrath. But any new deal "must demonstrate" that shareholders of Guinness and GrandMet would benefit.

Mr McGrath spoke after LVMH announced it had increased its stake in Grand-Met from 6.4 per cent to 11.05 per cent, but reduced its Guinness holding from 14.2 per cent to 12.46. The company now holds enough shares in either company to call an emergency meeting of shareholders.

The GrandMet stake, acquired at a cost of more than £800m (\$1.3bn), was bought as Mr Bernard Arnault, the LVMH chairman, sought to persuade Guinness and GrandMet to abandon their proposed £24bn merger. Instead, he is pressing for them to combine their wines

and spirits businesses with LVMH brandy and champagne subsidiary Moët Hennessy in an £18.6bn group. He wants the remaining food, fast-food and brewing businesses

The case for a demerger of the non-drinks businesses was yesterday vigorously rejected by Mr McGrath, who is chief-Brands, as the combined Guinness/GrandMet business would be called.

Despite claims by Mr Arnault that the businesses of GrandMet and Guinness are undervalued because of their

Continued on Page 12 LVMH acquisition, Page 14 Elephant in the boardroom,

Gresham Trust is delighted

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UK retail sales up as spending spree continues

By Wolfgang Münchau and Robert Chote

Britain's consumer spending boom continued unabated in June, according to figures published yesterday. They show retail sales growing at levels not seen since the end of 1988. The Office for National Statistics, the UK's statistical bureau, reported that the volume of retail sales went up 5.4 per cent year on year in June, the same rate as in May.

The figures helped raise the pound to an eight-year high against the D-Mark. The British currency closed in London at DM3.072. It was DM3.039 the previous day.

The latest surge in retail

sales was almost entirely due to windfall gains from building societies (mutual savings banks). A few of the largest societies have converted themselves into joint stock compa-nies recently and distributed free shares to members. The total value of these shares is estimated at £35bn (\$58bn). UK statisticians said yesterday

than save, their gains.

The strong retail growth data shocked financial markets. Most analysts had expec-

ing months.

the societies' new shareholders had tended to spend, rather

Mr Adam Cole, UK economist at brokers HSBC James Capel, said: "With much more to come in terms of windfallrelated spending, sales growth could easily burst through its late-1980s highs over the com-

ted retail spending growth to ease after May's increase.

Sterling's rise is being

ther increases in UK short-term interest rates from the current benchmark rate of 6.75 per cent.

The newly independent Bank of England is expected to put up interest rates by at least another quarter point at the monetary committee meeting in August. Senior committee members are concerned the economy may be overheating. But the strong currency

the Bank of England, faced with a booming service econ-omy and a depressed manufacturing sector.
The latest survey published

yesterday by the British Chambers of Commerce confirmed sterling's strength was hurting

UK exporters. Mr Eddie George, the governor of the Bank of England, said "the jury is still out" on whether the recent Budget was tight enough to put downward pressure on sterling.

Lex, Page 12 Bank shares soar, Page 13

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Brussels shoots down UK claims that threatened import ban carried the day in farm council

Credit for meat safety vote disputed

By Neil Buckley in Brussels and George Parker and Maggie Urry in London

European Commission officials yesterday disputed claims by Britain that it deserved the credit for an EU decision to bring continental meat safety standards into line with the UK's.

Farm ministers voted 8-7 on Tuesday night to endorse a Commission proposal that the parts of cattle believed to carry BSE, or mad cow disease, should be removed from the human and animal food chain in an effort to eradicate the condition.

Mr Tony Blair, UK prime minister, claimed his government had secured a deal which had eluded He praised Mr Jack Cunningham, rejected by ministers in December. his agriculture minister, for his "patient negotiations with his EU counterparts".

Mr Cunningham had threatened to ban imports of beef from counstandards, if the agriculture council voted against. The Yes vote, he said, had resulted because "Britain pressed for these controls to be put in place right across Europe".

Brussels officials, however, suggested privately that the same outcome could have been achieved through conventional diplomatic horse-trading. Mr Cunningham had merely hitched a ride on Commission proposals.

EU agriculture commissioner, but persuading the others."

some countries in Europe were not meeting existing standards, Mr Fischler gained Commission backing tries which did not match British in May to reintroduce the measures, before Mr Cunningham issued his threat. "The British threat didn't even cross people's

minds. It was pretty irrelevant,"

said one EU official. Mr Ian Gardiner, policy director of the UK's National Farmers' Union, said: "The Commission put this forward on the basis of scientific and technical advice. It had strong support from some countries like the UK, Ireland and Similar measures were proposed France, but it was the Commission last year by Mr Franz Fischler, the which had to bear the brunt of

After gathering highly critical vet- the council had moved on the basis erinary inspection reports, showing of scientific advice. That should encourage it to accept a proposal to lift the export ban on British beef. which was also based on scientific grounds

> While discounting British claims for the credit, Brussels officials felt nevertheless that the new Labour government's approach was more constructive than that of its Conservative predecessor. One difference was a well-defined

set of objectives. "They have got a fairly clear idea of how they want to set about things, step by step," said one senior agriculture official. Another was an apparent willingness to work more closely with both the Commission and the

choir in Germany to Prince

Hermann zur Lippe and a

Mr Georg Krayer, chair-

man of the Swiss Bankers

Association, said yesterday

that he could not understand

why the banks had not made

more of an attempt to con-

tact the account holders

"I have not been able to

find any fig leaf big enough

to cover up my colleagues'

negligence," said Mr Krayer.

when it began to investigate

dormant assets manually it

became clear that the date

recorded electronically was

not always indicative of the

establishment of the client

relationship. As a result it

had revised upwards its esti-

mate of its dormant

accounts from SFr11.4m to

Swiss banks will publish a

list of an estimated 20,000

second world war in Octo-

be far less than the SFr60m

in foreign accounts. How-

Cyprus problem, after meet-

ings this month between Mr

Simitis and President Süley-

man Demirel of Turkey and

between leaders of the two

Cypriot communities at

But the atmosphere has

been soured by statements

made in Cyprus at the week-

end when Mr Bulent Ecevit,

Turkey's deputy prime min-ister, joined Mr Rauf Denk-

tas, the Turkish Cypriot

leader, to celebrate the 23rd

Troutbeck, New York.

SBC said yesterday that

before.

SF127.3m.

delegation from Japan.

The good news, he said, was that It is also prepared to make the right gestures. Last week Mr Cunningham appeared before the European Parliament's special BSE monitoring committee. Mr Douglas Hogg, the previous farm minister. had infuriated MEPs by repeatedly refusing to appear.

> "[Mr Campingham's appearance] was symbolically very important, said Mrs Dagmar Roth-Behrendt, German Socialist chair of the committee. "For a British agriculture minister to appear in that arena for two hours and be applauded at the end was quite something."

> Even Mr David Curry, the new UK shadow agriculture spokesman, praised Mr Cunningham, saving the council's vote partly reflected Mr Cunningham's "constructive approach" towards the EU.

Bonn approves finance

By Peter Norman in Bonn

yesterday approved a wide-ranging draft law to deregulate the market for risk capttal and enhance the international competitiveness of the country's stock markets and financial centres.

currency. the Bundesrat, the second chamber of the Bonn parliament controlled by the opposition Social Democratic party. The SPD yesterday

ing out existing business.
The legislation will reform

bill

The 451-page "third financial market promotion law" encompasses more than 100 measures which have been the subject of intense discussion between the finance ministry and the financial services industry for more than a year. A revision in yesterday's draft will give foreign companies more freedom to issue prospectuses in languages other than German to encourage them to list their securities on Ger-

planned European single

the bill.

the planned law would make more risk capital available for medium-sized companies and for small, new innovative firms in growth sectors, as well as lower the cost of raising funds through the stock market. It would also open up new activities for financial services companies and stock exchanges and improve conditions for carry-

 The cabinet approved a bill of Mr Klaus Topfer, housing minister, to curtail subsidies in the publicly supported housing sector and raise housing costs for wealthier tenants. Parliamentary approval for the plans appeared bleak after protests from property owners, tenants' groups, opposi-tion parties and the federal states and local authorities.

man stock markets. was a "central component" of the government's supplyside programme for more investment and jobs. He said it would strengthen Germany's financial sector in readiness for the euro, the

The finance ministry said

laws covering stock markets, investment funds and holding companies. It will make it easier for companies to access capital markets, modernise investor protection. improve the international competitiveness of German investment funds, give encouragement to equities and derivatives trading, and encourage more private protargeted pension funds.

The German cabinet

Mr Theo Waigel, finance minister, said the bill, which Bonn hopes will become law before the end of this year,

To pass parliament, the had no comment to make on

Swiss bankers uncover more dormant accounts

By Robert Graham in Rome

seeks plea

Olivetti

ex-chief

bargain

Mr Carlo De Benedetti, the former chairman of Olivetti the Italian information technology group, has proposed to plea bargain with Turin magistrates who have been investigating him for the last 10 months on charges of alleged insider trading.

18 months ago.

SFr61.2m (\$41.6m).

since 1945.

1996.

May 1945.

They have also increased

their estimates of how much

foreign money lies

unclaimed in their vaults by

more than 50 per cent to

Mr Kurt Hauri, chairman

of the Swiss Banking Com-

mission, said vesterday that

67 of more than 400 Swiss

banks had reported a total of

1,785 bank accounts dormant

This is more than double

the 775 dormant bank

accounts, totalling SFr38.7m,

that were reported by 51

official survey in February

The latest revelations will

increase the embarrassment

which have been accused of

blocking attempts by Holo-

caust survivors and others

A large part of the latest

News of the proposal leaked out yesterday from the Turin magistrates and was confirmed by a spokesman at Cir, the industrial holding company controlled by the De Benedetti family. The investigation was triggered by share trading at the end of August last year, just before Olivetti announced unexpectedly large losses for the first half of 1996.

A Cir spokesman said the plea bargaining was sub judice, and any decision Swiss banks in the last would not be made by a judge for two months. If accepted it would mean Mr. De Benedetti would have to pay a fine in return for all of the big Swiss banks,

proceedings being dropped. The procedure also implies no formal guilt, thus Mr De Benedetti would not risk to regain their money. being barred from holding public or company office. Plea bargaining also has the advantage of avoiding a Corporation, the smallest of heads the investigation into claimants are urged to concourt judgment that could the "big three" banks, which dormant Swiss bank tact toll-free telephone numaffect Mr De Benedetti's legal position regarding the collapse of the Banco

Ambrosiano. A court of second instance reduced in 1996 a six-year sentence to four and a half years for the 1982 fraudulent bankruptcy of the bank. If the insider trading case had gone to court, under Italy's complex legal system he would have risked the original Banco Ambrosiano sentence being reinstated. He is

also appealing this sentence. On September 3 1996 Olivetti unveiled first-half losses of L440bn (\$252m) losses that led to Mr De Benedetti's resignation as group chairman. Just prior to this unexpected announcement, Olivetti shares fell 9 per cent in two days of heavy trading. Consob, the stock exchange watchdog, set up an inquiry in part as a result of a statement made by Mr Renzo Francescone, the Olivetti managing director, who had resigned in disagreement over the group's accounts,

An investigation was then set in motion by Turin magistrates who questioned Mr De Benedetti, and a Turinbased stockbroking group allegedly involved in Olivetti share trading. Mr De Benedetti's son, Rodolfo, was also placed under investigation, but proceedings against him are likely to be dropped.

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Estimate of unclaimed foreign money is doubled to \$41.6m By William Hall in Zurich the whole exercise and the advertising campaign alone Swiss banks have found is estimated to cost SFr5m. more than twice as many The need for the latest campaign is underlined by a dormant foreign bank accounts dating back to the glance at some of the names in the published list, which second world war than they thought they had less than range from a male voice



Two Russian Jews in Moscow's Central Synagogue study names on the dormant account list

Volcker, the former US Fed- distributed in 13 different dormant Swiss bank owners of dormant Swiss

Yesterday's revelations came as the Swiss Bankers have been listed in newspa-Association, the Swiss Bank- per adverts in 28 countries, ing Commission and Mr Paul

increase was due to a technicomputers properly to identify accounts opened before bank accounts.

Names of account holders information kits are being

cal oversight at Swiss Bank eral Reserve chairman who languages, and would-be accounts dating back to the had not programmed its accounts, outlined plans to bers in most of the 28 coun- involved are understood to contact the rightful overseas tries for advice on how to make a claim.

Until recently the Swiss ever, many of these accounts

banks charged SFr300 to may have been opened by research each individual intermediaries who were actclaim. Now the Swiss banks ing on behalf of overseas clihave promised to underwrite

Greece in EU veto threat if entry of Cyprus is blocked

By Edward Mortimer and Kerin Hope in Athens

Greece refused vesterday to rule out vetoing European Union membership for applicant countries in central and eastern Europe, if Cyprus is excluded from the next wave of enlargement.

In an interview with the Financial Times, Mr Costas Simitis, Greek prime minister, also rejected Turkish threats to derail talks on a Cyprus settlement if the EU goes ahead with accession negotiations with the Greek Cypriot government. The negotiations are due to start early in 1998. Mr Simitis insisted that

the accession talks should continue "in parallel" with efforts to reunite the divided island.

not be necessary for Greece

tries, since the lengthy or threat of force. accession procedure would work out a political solution. But if in the end other EU

Mr Simitis insisted that disputes, including the leave considerable time to Turkey still had to withdraw its claims on Greek territory in the Aegean, or submit members sought to block them to the World Court, Cyprus's inclusion, on the before a direct dialogue grounds that it was still on other issues could divided. "Greece will use all proceed. On a more conciliatory measures offered in the

to reunite the divided island'

'The accession talks should continue in parallel with efforts

firm line in its disputes with Turkey, notably over Cyprus He said he hoped it would and control of the Aegean Sea, while seeking to build to yeto EU membership for on this month's Madrid former Communist coun- agreement to avoid the use

framework of the European note, Mr Simitis for the first tary intervention on the Union to achieve what it time signalled that experts considers to be right," he appointed by both sides to sort out procedural problems Mr Simitis said that would meet face to face in Greece would maintain a September and not be confined to exchanging documents.

The four "wise men" were chosen in May after EU mediation.

anniversary of Turkey's mili-The two leaders warned that Turkey would proceed

with gradual integration of northern Cyprus with the Turkish mainland if the EU persisted in negotiating membership with the purely Greek Cypriot administration in the south. Hopes were raised for a Thaw in Aegean, Page 10

President of Yugoslavia begins term with clampdown on TV and radio stations Milosevic promises 'peace and progress'

By Tony Barber in London

Mr Slobodan Milosevic, the Serbian leader who has presided over some of the greatest setbacks in his nation's history, was sworn in yesterday as president of the federal state of Yugoslavia, which comprises Serbia and Montenegro.

Speaking to the federal parliament, Mr Milosevic, 55, promised that his four-year term would be were jamming central Belgrade bian state. an era of "peace, progress and prosperity".

His words rang hollow to domestic critics who pointed out that he had crown forcibly removed. Yet by bidwarmed up for the big occasion by ing his time and exploiting the interclosing down six independent radio nal divisions of the Serbian opposistations and two television channels last weekend. Mr Milosevic, who came to power Milosevic had displayed an extraor-

way of prolonging his domination of the Serbian political scene. The Serbian constitution barred him from serving a third term as president of Serbia, but Mr Milosevic has yet to betray any readiness to relinquish power voluntarily.

Last winter, when crowds of up to 150,000 pro-democracy demonstrators every day and demanding his resignation, it appeared that Mr Milosevic Bosnian Serbs pounded into submist the next four years. might be in danger of having his tion, he rode out the crisis. It was not the first time that Mr

in Belgrade in 1987, took over the dinary capacity for survival. Even Milosevic's opponents to the defeat Yugoslav presidency largely as a the calamitous 1991-95 wars of the suffered at Ottoman Turkish hands Yugoslav succession, for whose out- at the battle of Kosovo Polje in 1389. break many Balkan experts hold For Serbia, the war also brought him largely responsible, could not world record hyperinflation, United shake his grip on power. Mr Milosevic enticed the Serbs

into war in Croatia and Bosnia with the prospect that, after Communist would live in a single, enlarged Ser-However, the wars ended with the

sion by Nato and with the Krajina Serbs of Croatia fleeing from their ancestral homes under the shadow of conquering Croatian armies.

Nations-imposed economic sanctions, exclusion from some international organisations and sports events, and a collapse in per capita Yugoslavia's dissolution, all Serbs gross domestic product to 59 per cent of its level in 1989.

Mr Milosevic told parliament yes terday that he had great plans for

"We are launching a project of material and spiritual renewal and recovery of society as a whole - the economy, technology, the state, edu-It was one of the most terrible cation, media, villages and towns, episodes in the long history of the roads and bridges, hospitals and Serbs, comparable in the view of Mr schools," he said.

EUROPEAN NEWS DIGEST

Turkish alarm bell stifled

Turkey's economy minister yesterday retracted his warning that inflation could hit 100 per cent this year. considerably higher than his earlier estimate of 80-85 per cent. Mr Gines Taner, appointed only three weeks ago. had increased his estimate from the previous

government's target of 57.7 per cent. He only backtracked after nervous financial markets had closed. During the day, average share prices tumbled 1.7 per cent and yields on treasury bills rose to 120 per cent from 111 per cent. However, the currency weakened

only slightly. Global Securities, a big Istanbul brokerage, speculated that Mr Taner was preparing for a tough deflation policy next year by allowing prices to rise sharply now, letting the overheated economy cool off before introducing reforms that would deliver a benign economic environment prior to next year's elections.

Other analysts argued that Mr Taner's remarks were simply a sign of poor judgment which had cost him credibility in the markets and the business

RUSSIA'S MILITARY

Navy chief announces cuts

The Russian navy is to cut its personnel by some 30,000 by next year and take outdated ships out of service, Admiral Feliks Gromov, its commander-in-chief. announced yesterday in Vladivostok. At the same time, it will make every effort to introduce new ships and equipment and maintain its technological level, he said. Russia's armed forces have been hit hard by a chronic lack of funds because of the country's economic crisis. Recent figures indicate the navy has some 320,000

personnel, of whom 200,000 are conscripts. President Boris Yeltsin has called for a sharp reduction in the size of the military and for conscription to end. In an interview in the latest issue of Moscow weekly Argument-i-Fakty, Mr Igor Sergeyev, the defence minister, said it was planned to reduce the number of senior officers in the army from 1,925 to 1,400 next year, and eventually to 1,200. Total armed forces would be cut from 1.8m to 1.5m by 1998, and to 1.2m the following year. Mr Sergeyev said he expected a 1m-strong army

Mr Yeltsin yesterday ordered the sale of thousands of stores, restaurants, sports centres and other loss-making facilities belonging to the armed forces in an effort to raise cash for unpaid wages, according to the Itar-Tass Charles Clover and agencies, Moscow

IMF MISSION IN KIEV

Ukraine expects standby loan

The International Monetary Fund will approve a \$750m one-year standby loan for Ukraine in the near future. according to Mr Anatoly Galchinsky, deputy head of the presidential administration, "There will be a one-year standby loan, which will cover the second half of this year and the first half of next, worth \$750m," he said

An IMF mission is in Kiev this week completing talks on the deal. Ukrainian officials said they expected the team to recommend that the loan be released next month. It is less than a month since the IMF said Ukraine was not ready, because of slow progress on reforms, to meet the conditions of a three-year loan deal worth \$2.5bn-\$3bn

agreed late last year. Ukrainian officials have said they hope the standby will be followed in early 1998 by a new long-term loan, but Mi Galchinsky's comments yesterday suggest that credit will not come until the second half of next year. AP, Kiev

SICILIAN MAFIA

Former top judge accused

Prosecutors in the Sicilian capital Palermo said yesterday that they wanted to put a former senior judge on trial for alleged links with the Mafia. They claimed in a 1,000-page report that Mr Corrado Carnevale, once a member of the Court of Cassation, Italy's highest court, should be tried for complicity with the Sicilian Mafia.

who will decide whether there is a case to pursue, contained details of several court cases allegedly 'adjusted" in the Mafia's favour. It also included evidence from 12 ex-Mafiosi who have turned state's evidence. Mafia cases were at one time regularly assigned to the first section of the Court of Cassation, over which Mr Carnevale presided, and the former judge earned the name "verdict killer" for the number of convictions he quashed on technicalities. He is best known for freeing

The document, submitted to an examining magistrate

convicted by a lower court of bombing a Naples-Milan express train in 1984.

■ ALBANIAN POLITICS Berisha announces resignation

Mafia godfather Michele Greco from jail in 1991 and

quashing life sentences on two lesser Mafia bosses



Albania's President Sali Berisha (left) yesterday announced his resignation fulfilling a pre-election promise and clearing the opponents to try to bring the anarchy in the country to an end. Mr Berisha announced his resignation in a radio broadcast shortly before a new Socialist-dominated parliament convened. He will remain in parliament as bead of a weakened Democratic party, which previously dominated the

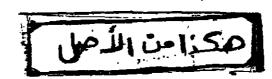
country, and said he would fight for a free-market system and Albania's acceptance into western defence and economic organisations. He and his party suffered a huge loss of popularity because of the perception that they had profited from pyramid investment schemes which collapsed early this year, taking the savings of many Albanians. AP, Tirana

■ HUNGARY-ROMANIA RELATIONS

Consulate reopens in Clui

Hungary yesterday signalled improved bilateral relations with Romania by reopening a consulate in Cluj closed down by the late Communist dictator Nicolae Ceausescu nine years ago. However, the event was marred by Romanian nationalists who telephoned death threats to Mr Victor Clorbea, the country's prime minister, accusing him of giving too many rights to Romania's 1.7m ethnic

Once a trilingual city with many native German speakers, Cluj now has a population of \$30,000, about a quarter of whom are ethnic Hungarians. It is located some 200 miles northwest of Bucharest, in Transylvania, where most of the ethnic Hungarians live.



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A PERSONAL APPROPRIETS CUIS

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The Telephone in the second se

Private enterprise blooms in a bleak environment

uhansk, a gritty industrial city in the Donbas region of eastern Ukraine, is hardly a popular venue for foreign investment. The collapse of the local economy based on coal mining and heavy industry has pushed the area into a depression which is bleak even by former Soviet standards. Street lighting and hot water have become luxuries and the city pavements are lined with underemployed workers seeking to supplement meagre incomes by selling a few bars of soap or a couple of cheap dresses. In this seemingly hostile climate, however, a small British-Ukrainian joint venture called Britanica, which makes telephones and sells a

wide range of consumer

goods, has prospered. Last

year it manufactured 210,000

In the last of three reports from eastern Ukraine, Chrystia Freeland reports on how a region once synonymous with Stalinist industrialisation is proving attractive to foreign investment

employees to 300 and created a network of 17 regional service and distribution centres across Ukraine and Russia.

Britanica's success, and its enthusiastic expansion plans, are part of an impor-tant, but widely overlooked, trend. At a time when large corporations are shying away from making direct investments in the former Soviet Union, thousands of success, we could get 50 brave adventurers such as Mr Robert Tyldesley, one of Britanica's founders, are tunes in Europe's new frontier. Their entrepreneurial spirit, and the energetic con-

\$608,000m profit. Founded in ners, are the best hope these dous business opportunity in manager at a local armaness, it has grown from five sad Slavic lands have of Ukraine because of the counments factory producing emerging from the dol-"I think the advantage ket for consumer goods.

we've got here is purely that To tap into that market of we've had the courage, the guts to get off our backsides," says Mr Alfred Gooding, chairman of Big Tree Products, a British manufacturer of heating and domestic products. "I think that if we can make this venture a other firms coming out to

Britanica's founders, who seeking and finding their for-tunes in Europe's new fron-expand into the production and sale of electric kettles small domestic and Mr Sedykh, a former senior water beaters, see a tremen-

try's combination of low labour costs and huge mar-

50m people. Mr Ihor Sedykh, the company's Ukrainian partner, believes it is crucial to convince Ukrainian consumers, made sceptical by 70 years of shoddy Soviet goods, that they are buying a quality product. When Bri-tanica telephones were launched in Luhansk, he proved that point by holding his telephones out at arm's

length and dropping them. "A Soviet telephone would have broken into dozens of pieces, but ours didn't," says

ammunition for Kalashnikov machine guns. "It might seem vulgar, but it was a trick which really helped us see if they need new stock. to show how our telephones But, while Britanica's part-

ing to Mr Tyldesley, has been the creation of an extensive, commission-only sales team. Like other companies, including the international cosmetics giants whose business is booming in the former Soviet Union, Britanica has discovered that the elaborate friendship networks which were vital for survival under communism are useful engines of capitalism. Britanica sales

Another key step, accord-

were different,"

their chums, go door to door in their dingy Soviet apartment blocks, and visit local Their greatest problem is shops at least once a week to Ukraine's cumbersome product certification system, full

ners are full of praise for the ingenuity and endurance of their sales staff, they have nothing but scorn for Ukraine's meddlesome bureaucracy, whose interference they say is the biggest bar to doing business in the

"The biggest problem is connected with bureaucracv. It is very draining, and one of the most difficult things is that major new hurdles just suddenly appear," complains Mr Tyldesley, who is the facilities, it proved surpris-

"We realised that there was virtually any number of factory directors who would come to us and say, 'If you can bring jobs, you can have the factory"," recalls Mr Tyl-

This open-armed welcome to foreign investors is not what one would expect of the "red" Donbas, which long prided uself on its role as one of the engines of Stalin's industrialisation drive. But, as a few hold small-scale investors are discovering, six years after the collapse of the Soviet Union. even some of the bleakest corners of the former Communist monolith are suddenly open for business Previous articles appeared on

Central European floods

Kohl cabinet clears aid for stricken areas

phones and made a tributions of their local part-

By Peter Norman in Bonn

Chancellor Helmut Kohl's cabinet approved emergency support measures yesterday for flood victims in eastern Germany after the first dyke broke on the German bank of the River Oder.

In Poland, where more than 500 communities were still under water, river authorities said the Oder flood wave was heading towards the southwestern city of Opole and was residential estate at Wroclaw, a short distance to the

New floods were also expected near the Warta river, which merges with the Oder at the border town of ish authorities revised the to their homes. official death toll from three weeks of flooding in Poland down from 60 to 55.

region around Frankfurt, the in the 18th century. German cabinet approved that Kreditanstalt für Wiederaufbau, the state-owned rate to cover damages.

Mr Theo Waigel, the Bonn finance minister, will open talks with the Brandenburg reported that troops were state authorities on special tax reliefs for flood victims, strengthen the river bank while Mr Matthias Wiss- with sandbags. A further

ter, was instructed to begin discussions with the state on repairing damaged bridges, roads and dykes.

The decisions came after the River Oder burst through a dyke on its west bank at Brieskow-Finkenheerd, a few kilometres south of Frankfurt. Army helicopters dropped giant sandbags into the gap in

The hole in the riverside defences rapidly widened to 250m and water flooded to inundate a at a rate of 500 cubic metres per second into a surrounding low-lying area 60km

The authorities ordered the evacuation of more than 2,000 people from nearby villages, but many refused to Kostrzyn, north of the move for fear of looting. Oththreatened German city of ers who had been evacuated Frankfurt an der Oder. Pol- on Tuesday quickly returned

In Frankfurt, the waters were one centimetre above the level of the record flood Following Mr Kohl's visit of 1930 and reached the highon Tuesday to the crisis est level since records began

It was unclear yesterday assistance and announced worsen. While glorious summer weather in the Frankfurt area held out the hope development bank, would of a respite from the floods, provide DM200m in credits Mr Alwin Ziel, the interior at half the market interest minister of Brandenburg. warned that the river would continue to rise.

The defence ministry working around the clock to mann, the transport minis- 5,400 were available to help.

Czechs to put three banks up for sale

The Czech finance minister, Mr Ivan Pilip, announced yesterday that he would submit a plan for the sale of three of the country's four August 20.

The weakness of the Czech financial sector has been identified as an important factor in the country's economic difficulties, and a sale to western banks - though not yet guaranteed - would be one of the most significant steps to date in the reform process. The government will be seeking to sell its controlling stakes in Bank and CSOB Bank. All three have been audited by the six biggest international auditing companies.

Analysts caution, however, that the privatisation process may be a difficult one. A 15 per cent stake in Komercni and approxi-mately one third in CSOB are held by the Slovak National Property Fund as a result of the "velvet divorce" between the two countries.

The Slovak side is understood to be willing in principle to sell its share, but is seeking to link its agreement to Czech concessions concerning disputed shared assets. Mr Pilip said he deputy were arrested and expected negotiations with charged with fraud. IPB has the Slovak Property Pund to been sold to Nomura, and

defeat for the Czech state bank, which has been pressing for a merger between CSOB and Sporitelna to take place before the banks are privatised. This would have created a more attractive prospect for western buyers. Some 34 per cent of Komercni Bank's assets are currently non-performing, with lesser figures for the

other two. Floods on top of this year's economic crists, have put pressure on Czech industries, and there are fears that this proportion could increase. The Czech government has been discussing bank

privatisation for several years, but Mr Miroslav Nosal, head of research at Patria Finance, said that Mr Pilip had brought a new determination to the task owing to the economic crisis. He added, however, that there would probably be opposition from other ministries and some of the banks

It is not clear whether the government has really made up its mind to follow the pattern of neighbouring Hungary and sell its entire stake in the banks to foreign strategic investors.

The sale of the Czech Republic's second largest bank, IPB, was held up in May when its head and his Mr Pilip's statement ised that the deal will go appears to represent a shead in the coming weeks.

Austrian budgets set nation on target for Emu

Austria's finance minister, Mr Rudolf Edlinger, will today present parliament with budgets for the next two years that are in line with the convergence criteria for the planned single European currency, writes Eric Frey in Vienna. According to Mr Edlinger's forecasts, the federal budget deficit as percentage of gross domestic

product will slide from 2.7 per cent gradually falling to the 60 per cent Sch70bv in the following year, reach agreement on a comprehen this year to 2.6 per cent next year limit, Austria would therefore be while keeping it steady as a share sive pension reform that should be this year to 2.6 per cent next year and will stay there in 1999.

Even including a deficit of 0.3 per cent of GDP by the federal states and the communes. Austria would remain below the 3 per cent threshold stipulated in the Maastricht treaty. With low inflation and a total debt burden that is

poised to meet all the criteria for of GDP. joining Emn in 1999.

Mr Edlinger's forecasts assume economic growth will rise from 1.4 per cent this year to 2.9 in 1998. This should allow the government to increase its absolute deficit from Sch67bn (\$5.3bn) in 1988 to

economy.

of pitfalls which serve to

enrich the country's under-

paid civil servants but act as

a powerful brake on the

Even so, some traditional

obstacles to doing business

seem to be vanishing as this

impoverished region realises

that new investment is the

only way to stimulate the

dying economy of the Don-

bas. For example, in spite of

Ukraine's national reputa-

tion for laggardly privatisa-

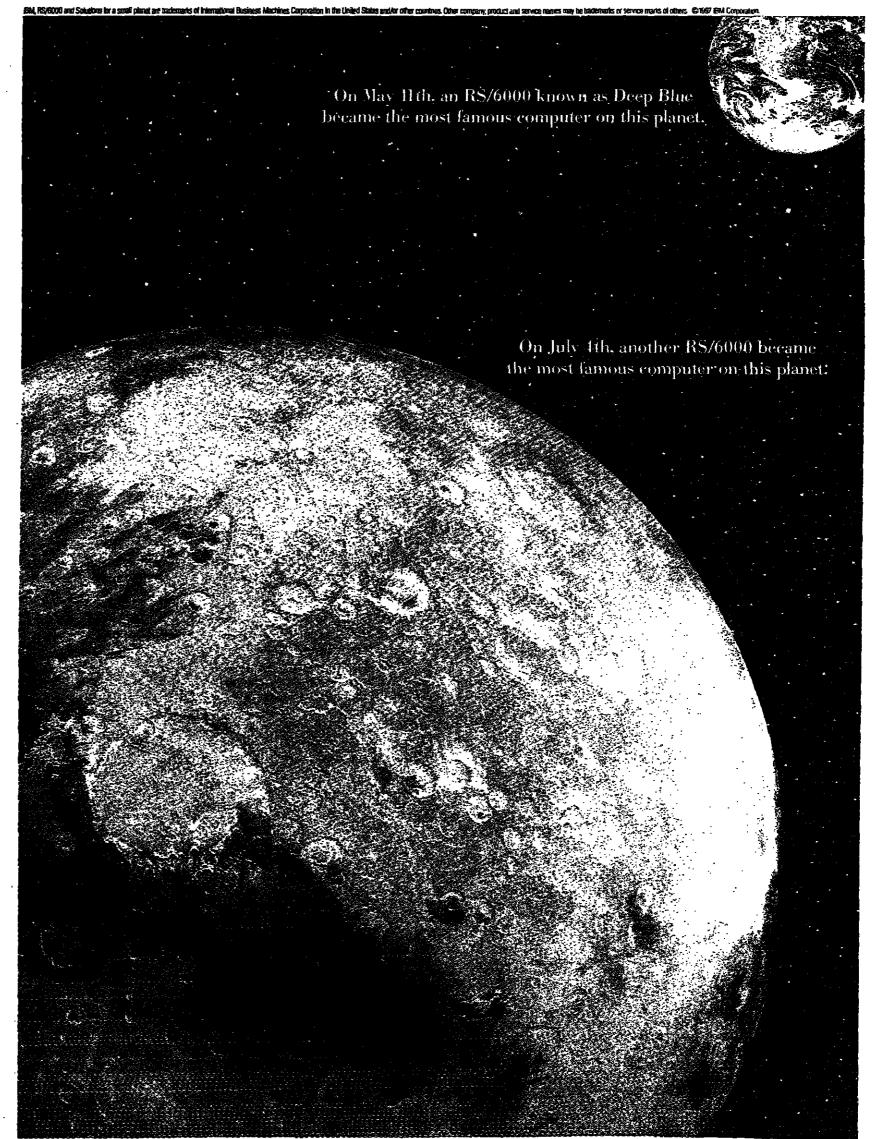
tion, when Britanica set out

to buy a factory this spring July 7 and 23

The budget plans include more spending for crime prevention, education and social security, but keen capital investment spending

relatively low. The coalition government made a last-minute effort yesterday to

sive pension reform that should be presented together with the budbetween the Social Democrats, who want part-time carnings subject to payments into the federal pension scheme, and the conservative People's party, which fears job losses from such a measure.



"he same IBM RS/6000" technology that as "Deep Blue" competed against world chess champion Garry Kasparov is also conquering deep space.

For the Mars Pathfinder mission, NASA and Lockheed Martin had only one shot at success. Their solution: an onboard flight computer based on everreliable and powerful RS/6000 technology.

From launch to landing, the computer was responsible for over 100 mission-critical events. On Mars, it's controlling vital communications

between Earth, the Pathfinder lander and the 22-pound Sojourner rover.

Of course, you don't have to be a grand master or a rocket scientist to benefit from RS/6000 technology. More than 600,000 RS/6000 systems are in use around the world (Earth, that is), handling everything from massive data warehouses to mega-Web sites to large-scale simulations.

For a closer look at the computer technology that's taking this and other worlds by storm, visit www.rs6000.ibm.com

Japan aims to

boost tourism

Japan is aiming to double the number of overseas tourists

to the country to 7m by the year 2005. Tourism in the Sast

Asia-Pacific region is showing one of the world's fastest

growth rates, but inbound tourism to Japan is relatively

depressed, according to the Ministry of Transport, Japan

had 2.1m tourists in 1992 but the numbers dipped to 1.7m

in 1995 before recovering to 2m last year, the World

A Transport Ministry plan to stimulate oversous

away from the tourist centres of Tokyo and Osaka.

demand through increased marketing, mainly in Asia,

was approved by parliament last month. The ministry

also plans to revitalise regional areas and entice tourists

Taiwan and Korea are the top two suppliers of tourists to

the country, which earned \$3.50m in tourism receipts last

year, compared to Korea's \$6.50n and China's \$10.50n. The

Japan National Tourist Organisation said 115 hotels were

Scheherozode Daneshichu, London

Louise Lucas, Hong Kong

Reuter, Conberra

scheduled to open by 2000, with a combined capacity of

Tourism Organisation says.

MACAO CASINOS

January 1996.

casino in the enclave.

■ CALL TO COMMONWEALTH

following a second military coup.

in Scotland in October.

PAKISTAN LOAN

Return for Fiji urged

Piji should be readmitted to the Commonwealth.

was ejected in 1987 after declaring itself a republic

It passed a constitution in 1990 setting aside

following its adoption of a less racially-based constitution.

Mr Alexander Downer, Australia's foreign minister, said

in a radio interview yesterday. The South Pacific nation

parliamentary seats on the basis of race and guaranteeing

a majority for ethnic Fijians. A new constitution allowing

membership at the group's heads of government meeting

for a multi-racial government will become law in Fiji tomorrow. Fijian Prime Minister Sitiveni Rabuka said this

year his nation might reapply for Commonwealth

Deal to raise takings

Macao, the Portugese enclave off southern China, yesterday moved to boost its share of takings from the raming tables. Under an agreement with Dr Stanley Ho.

who holds the casino monopoly, the government raised

gambling gross takings, and backdated the higher rates to

Sociedade de Turismo e Diversoes de Macau (STDM).

takings in excess of 16bn patacas (\$2bn), more than 5.09bn

patacas of which will now accrue to the government. Dr

government to build a cultural centre, and a further 190m

patacas plus 1.6 per cent of annual gross takings to a yet

to be established development foundation operating under

Dr Ho is betting on the gambling business remaining

robust. In return for his increased contributions to the

government, he has won permission to open his tenth

founded and controlled by Dr Ho, last year had gross

Ho will also pay "at least" 400m patacas to the

the franchise's tax from 30 per cent to 31,8 per cent of

ASIA-PACIFIC NEWS DIGEST

By James Kynge in Kuala Lumpur and William Barnes in Bangkok

The Thai baht plunged to an historic low and other south-east Asian currencies also weakened yesterday, as thoughts turned to whether an Asian central bankers' meeting tomorrow might restore stability to the region's markets.

The bant ended in Bangkok at Bt32.40 against the US dollar, down said. from Bt30.95 on Tuesday and well below the Bt26 level at which the central hank had pegged the currency before it was forced to float it on on July 2

The Thai currency was princinally undermined by its own weakness yesterday as Thai-based corporations, estimated to have a total

of US\$60bn in unhedged foreign debt, were forced to buy dollars to protect themselves against further declines in the currency.

Dealers said yesterday's trade appeared to be driven by genuine commercial demand, and not speculative activity. Poor first-half earnings reported by local banks and finance companies contributed to the baht's weakness, economists

The Thai central bank appeared to intervene slightly yesterday after failing to protect the baht at Bt30 last week. A consensus exists that the Bank of Thailand no longer has the reserves to do much more than "smooth the baht's decline".

Similar assumptions are being

applied to the central banks of the Philippines and Malaysia, which this week announced its reserves had fallen by M\$8.8bn (\$3.3bn) during a bruising battle with speculators in the first 15 days of this month.

Baht at historic low as slide continues

Against this backdrop, Asian central bankers are expected to be eager to find ways to support south-east Asia's beleaguered currencies when they meet in Shanghai tomorrow.

Economists, however, said that market expectations of a commitment to concerted central bank intervention may be overblown. It might be rash to hope for more than a strongly-worded communiqué on the need to restore stability,

Asian] currencies," said Mr Kobus van der Wath, head of treasury economics at Standard Chartered Bank in Singapore.

Countries to be represented at the meeting, which some have dubbed a "sort of Asian Group of Seven", include Japan, Hong Kong, Singapore, Malaysia, the Philippines, Thailand, Australia, New Zealand, South Korea, China and Indonesia.

Elsewhere in south-east Asia, currencies continued to slide yesterday. The Singapore dollar fell to a low of about \$\$1.4690 from Richard Hu, finance minister, ously. which appeared to suggest that Currencies, Page 21

"The meeting will probably have Singapore would allow market a calming effect on the (south-east forces to decide its currency's

The Malaysian dollar, or ringgit, was hit by offshore seiling following news that the reserves of Bank Negara, the central bank, had plunged. The ringgit was trading at MS2.6355/85 to the US dollar, compared with M\$2,6230 earlier in the

The Indonesian rupiah remained weak after being dragged down by the fall in the baht. In late trade. the rupiah was at 2,597 against an opening price of 2,570. The Philippine peso fell on commercial demand for dollars, closing at 28.50 SS1.4645 after comments by Mr to the US dollar against 28.15 previ-

Fear grips Philippines 'kidnap capital'

Clashes with Islamic rebels are dealing death blows to Cotabato's hopes of economic recovery

VI owner Pacific Heights Hotel in the southern Philippine city of Cotabato, likes drinking tequila. After a few glasses, he will tell you all the kidnapping scourge which has swept the town and hit local business

"Before these kidnappings, my hotel was always full hopes of economic recovery. and I used to send customers to other hotels," he says. "Now, if there are no kidnappings or killings one day, that's news. Every businessman here gives money to the Islamic rebel groups, the MNLF or MILF, for protection. If I want to buy building materials, they cost 20-30 per cent more here. Why? Because everyone's paying protection money."

In April, his sales fell 20 per cent; in May they turnbled a further 50 per cent and June promises to be no better, he says. Staff have been cut from 28 to 21 and there are plans to shed another five shortly.

Cotabato is a charmless place among the rolling green hectares of some of the most fertile land in the archipelago. In the heart of Moslem Mindanao, the city is also at the epicentre of the

ment ever since Spanish conquistadors trounced the Moslem sultanates in the 16th and 17th centuries.

Today, the destructive combination of kidnappings and military confrontations between the government's armed forces and secessionist Islamic rebels are dealing death blows to the city's mat.

Mr Chua is a Chinese-Filipino businessman, by definition a prime target for kidnappers. Ethnic Chinese businessmen have become particular victims because they are the most affluent members of the community. Mr Chua's former regulars

were involved in companies selling hardware, car supplies, agricultural products and clothes. Equally tempting is their tendency to be extremely discreet in terms of reporting kidnappings to the authorities.

The reluctance to use official channels is simply a reflection of the fact that, apart from the Islamic rebels who play havoc with Moslem Mindanao's peace and order, the other main perpetrators of kidnappings are said to be members of the armed forces and the Philippine National Police (PNP). Earlier this

r Pacifico Chua, back the region's develop- published a list of 87 police men and 27 soldiers whom it said were part of professional kidnapping syndi-

> "Cotabato City has become the kidnapping capital of the Philippines; the Chinese community is being plagued by an unprecedented epidemic," said a western diplo "In a sense, the govern-

> ment is the victim of its own success, having scared the gangs out of Manila back to their home town of Cotapeople not to travel there for anything other than short, essential trips."

Ever the pragmatist, Mr Chua has cordial relations with the Moro Islamic Liberation Front, the main Moslem rebel group, which also has a reputation for kidnapping, and he deliberately does not fraternise with the armed forces. But he is still not leaving anything to

A hidden closed circuit television camera, almost unprecedented for a small provincial hotel, monitors all vehicles and visitors at the heavily protected entrance. Above the perimeter wall, 6ft of extra fencing is designed to deter the more athletic violence which has held year, a Manila newspaper intruder. Inside the com-



Pacifico Chua: 'Everyone's paying protection money'

pound, a security guard provides the final line of resis-

Such precautions might figure is far higher. seem like paranoia but according to the military's bying by ethnic Chinese figures, 36 kidnappings have

occurred this year, given the widespread lack of reporting,

everyone believes the true In May, after intense lob-

logical choice.

objectives of totally destroying the kidnappers."

becomes confiding.

children," he says. "I sent two to Manila and one to Canada. You think they can handle this place? As for me, I don't like it here, but I'll die in this city because I know how to make money

Justin Marozzi

Hun Sen agrees to Asean role in Cambodia

By Ted Bardacke in Kuala Lumpur

The Cambodian leader, Mr Hun Sen, has reversed course and accepted a mediating role for the Association of South-East Asian Nations (Asean) in restoring stability to his troubled country, the Malaysian foreign minister

Mr Abdullah Ahmad Badawi said Asean believed the two-party coalition which

sponsored elections and was a coup led by Mr Hun Sen, the "second" prime minister, should be restored. He also said that Asean still recognised ousted Prince Norodom Ranariddh as "first" prime minister.

But Asean has also moved in Cambodia to oversee elections scheduled for next May. Mr Badawi said Asean thing constitutionally in

replacement for Prince Ran- suppose we have to recogtoppled earlier this month in ariddh if that person were nise that," said Mr Badawi. chosen according to the Cambodian constitution.

Mr Hun Sen has said he plans to convene a session of the National Assembly as early as next week to depose Prince Ranariddh and replace him with Mr Ung away from its idea of creat- Huot, the foreign minister ing a caretaker government and a member of the prince's royalist party.

"So long as they do everyemerged from the 1993 UN- was ready to accept a accordance to the process I

"It could be anybody.

Mr Badawi was speaking after the foreign ministers of Indonesia, Philippines and Thailand, who are co-ordinating Asean efforts on Cambodia, met Mr Ung Huot on the sidelines of Asean's annual ministerial meeting. Cambodia was scheduled to be admitted to the group with Burma and Laos yesterday but its admission was

wake of the coup. The move comes amid a foreign aid donor and a flurry of diplomatic activity over Cambodia. Mr Stephen Solarz, the US envoy, met Mr Badawi earlier in the day and is to meet Mr Hun Sen and Prince Ranariddh in the next few days. Mr Solarz said he supported Asean's efforts but reiterated the US position that Prince Ranar-

iddh should not be replaced. regards to Prince Ranariddh delayed indefinitely in the is closer to the position of Editorial comment, Page 11

Japan, Cambodia's biggest country Mr Hun Sen needs to court. On Tuesday Japan said it might recognise Mr

Mr Badawi said Asean's desire to take a mediating role in Cambodia was "not because we want to interfere but we think we should help this country because finally Asean's flexibility with we want it to become a member of Asean".

Ung Huot, against US

an end to the climate of fear,

the military took over anti-

kidnapping responsibilities

in Cotabato from the PNP, a

move which alarmed many

in a country still smarting

from almost two decades of martial law under the dictator Ferdinand Marcos. Critics accuse the armed forces of a heavy-handed approach to the problem but a spokesman for the 6th Infantry Division of the Philippine army based in the

city argues the army is the "The kidnapping busin here is being waged by the MILP, a big rebel force with high-power firearms," he says. "The PNP is totally inadequate to carry out the

The military claims it has reduced kidnappings, but for men like Mr Chus the problem has not disappeared. After more tequila, he

"I'm worried about my

ADB mulls \$250m aid

The Asian Development Bank is considering a \$250m loan to Pakistan for developing the country's capital markets, ADB officials said yesterday. Mr S B Chua, ADB resident be approved by the bank's board before the end of this

"The government (of Pakistan) has adopted a Capital Market Development Programme with support of the Asian Development Bank," an ADB statement said, "The programme is to be supported by a loan of \$250m and a package of technical assistance programme of \$7.4m."

ADB officials said the programme aimed to enhance competition among market participants by easing investment requirements for the insurance industry and private sector provident funds. It would also rationalise the tax system for private corporate income securities and mutual funds. A securities and exchange commission is to be set up to oversee regulation of the securities market and the state Corporate Law Authority is to be

Enirisorse s.p.A.

Invitation to express interest to acquire Pertusola Sud S.p.A. - Crotone - Italy

Enirisorse S.p.A. (ENI Group), having its head office in Rome, Plazza L. Cerva 7, is hereby advising that the procedure started on April 24, 1996 has not produced a result. As Enirisonse's interest to sell is continuing, the vendor wishes to receive and evaluate purchasing offers for the whole of the share capital of Pertusola Sud S.p.A.

Pertusola's plant and headquarters are located in Crotone and its business is the production and marketing of zinc.

The plant produces approximately 100,000 m.t. of zinc per annum through an electrolytic process and is also capable of producing associated metals (Indium, Germanium, etc.) through

The company employs about 480 persons; turnover in 1996 was 200 billion lire.

in order to promote the industrial development of the Crotone plant, the Italian Government has allocated a capital contribution of up to 158 billion line, not subject to revaluation, that will become available, if specific conditions are met, upon execution of an agreement with the Ministero del Bilancio e della Programmazione Economica (the Treasury) in line with the Act of Law r., 488 - 19th December 1992.

Bain, Cuneo e Associati, is assisting Entrisorse in this transaction. For the purpose of acquiring information, interested parties should contact:

Bain, Cuneo e Associati Via Crocefisso, 10 - 20122 Milano Tel. 39/2/58288265 - Fax 39/2/58288217 Attn., Mr. Luca di Giacomo, Rif. ERS 3

Interested parties (individuals, companies or consortia) should declare their interest in writing - fax acceptable - to Bain, Cuneo e Associati, by 12 noon on September 19, 1997, by sending a preliminary declaration of interest signed by an authorised signatory together with a description of their line of business and the reasons for the proposed acquisition.

Nominees and other intermediaries are required to disclose the identity of the party they represent. The information memorandum will be sent only to those interested parties who are believed, at Entrisorse's sole discretion, to have the necessary requirements to participate in the sale process and have provided the advisor with the executed confidentiality agreement.

The present ad is an invitation to bid and does not represent a public offer (ex art. 1336 of Italian Civil Code) nor a solicitation to public savings under art. 1/18 of the Italian Act of Law n. 216/1974 as amended. Neither the present invitation nor the receipt of an offer will create an obligation or commitment for Entrisorse to sell to any bidder, nor give any bidder any right or claim whatsoever on or against Enirisorse or its advisor, including payment of brokerage or

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Bonus shift for Japan bureaucrats

By Gillian Tett in Tokyo

After decades of running a tightly regimented bureaucracy, Japan is about to inject a new hint of individualism. The National Perconnel Authority (NPA), the public-sector pay body, plans to change the pay system to award bonness more

on merit than rank and age. The move comes after a rough year for the bureaucrats: they used to be held in high esteem, but their reputation has been

attacked in the Japanese press because of a host of bribery scandals.

The NPA's move reflects a broader wind of change in pany employees. Their aver-Japan. Pay has traditionally been decided according to seniority, but companies such as International Bank the Finance Ministry of Japan and Daiwa Securi- receives basic pay of ties are now considering Y592,800 a month. introducing more meritbased systems.

Others, such as Toyota, another way of rewarding

Japan's 1.16m civil ser- travel allowances. vants have traditionally been relatively low-paid compared with many comage monthly salary is half a year's pay, with a tiny Y324,091 (\$2,810); even the highest ranked official at

But civil service jobs have other perks. They are secure: no major cuts have plan stock option systems as occurred in public-sector employment in recent years; they carry benefits such as

hefty bonuses: last year, these amounted to almost variation for merit. Now the NPA wants to make the bonus more flexible to encourage individual achievement: next year, it wants employees who perform well to receive an extra 6.4 months' pay; those who perform not so well

worth.

will only get 5.2 months'

Another fringe benefit is also under threat. Japan's Also, civil servants have top civil servants have traditionally received two boosted their earnings at careers-end by moving to lucrative jobs in private companies: a practice known as amakudari -"descent from heaven".

But some ministries are cutting back this practice; in fiscal 1996 it applied to only 134 officials, against 318 in 1987. At the Finance Ministry, numbers fell from 44 in fiscal 1995 to 19 last

Australia CPI falls 0.2%

Australia has recorded its lowest annual inflation rate for more than half a decade, with a recent string of interest rate cuts leading to negative growth in the latest

Australian Bureau of Statistics' figures released yesterday showed the Consumer Price Index, CPI, fell 0.2 per cent in the June quarter compared with a 0.2 per cent rise in the previous quarter. That brought CPI growth

for the June year to 0.3 per cent compared with 1.3 per cent for the previous year, bolstering analysts' predictions that the Reserve Bank inflation rate, on which the will again cut official interest rates as early as this

It would be the fifth con-

secutive cut by the Reserve

also be influenced by official

By Bruce Jacques in Sydney Australian inflation Annual % change in CPI

Yesterday's figures also showed that the underlying focus, rose by 0.3 per cent in the June quarter against 0.4 per cent in the previous quarter. The annual underly- underlying government bud-Bank. But any decision will ing inflation rate fell to 1.7 get deficit of A\$4.93bn per cent from the previous

1972. The rate is also well within the Reserve Bank's stated targets.

The headline inflation figures were driven by four consecutive 0.5 per cent interest rate cuts implemented by the Reserve Bank since late last year. These contributed to an 8.8 per cent fall in annual housing costs, offsetting a 3.2 per cent rise in food costs and a 7.2 per cent lift in health Mr Peter Costello, the Aus-

tralian Treasurer, yesterday described the inflation figures as "exceptionally good" but he warned that annual wages growth needed to remain at around 4 per cent for the benefits of low inflation to be maximised. Mr Costello also said that

final estimates pointed to an (US\$3.65bn) for the latest wage growth numbers for year's 2 per cent - the low- June year, substantially the May quarter, due for est since figures were first lower than the A\$6.85bn deficompiled in this form in cit forecast earlier.

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NEWS: WORLD TRADE

Trains and boats and car parts

By Charles Batchelor, Transport Correspondent

OOCL a Hong Kong-based shipping line, has launched a twice-weekly rail service carrying car parts from the port of Antwerp in Belgium to a Chrysler assembly plant in Graz, Austria.

This is OOCL's first move into train operations in Europe though the company. already operates container trains in the US and China. involvement of shipping lines in European rail ship-

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The parts, for Chrysler's Voyager and Jeep Grand Cherokee models, are shipped by container on OOCL vessels from the north American ports of Norfolk. New York and Montreal. In Antwerp they are transferred to flatbed rail wagons and moved on trains consisting of up to 80 wagons reserved exclusively for Chrysler.

OOCL has always moved Chrysler parts by rail but its containers were previously moved on mixed trains carrying consignments for other companies. Forming "block trains" consisting solely of Chrysler containers allows for a more reliable service and cuts costs, said Mr Jim. Poon, chairman of OOCL

OOCL planned the train timetables across Belgium, Germany and Austria but the locomotives, their crews and the wagons are chartered from Transfracht International, the marketing arm of German Railways.

Other recent arrivals on the rail freight scene include NDX Intermodal, an alliance of CSX Intermodal of the US and the German and Dutch railways.

The private sector rail drawn to Europe by the break-up of the large state owned rail monopolies and the more commercial approach being taken by

Japanese survey clears Fuji

Fuji Photo Film's business practices in the Japanese film and photographic paper anti-monopoly law, accord-Fair Trade Commission

The finding is new ammunition for the Japanese in the dispute between Fuji and Eastman Kodak, the US photofilm manufacturer, which is currently before the World Trade and Industry said that although the report was not directly linked to the WTO the US trade representative, mary wholesalers, the com-dispute, it did provide extra immediately attacked the mission said. Other recom-Kodak submitted a petition

anese government's position. vey's findings "confirm industry as a whole, such as ing the Japanese govern-Miti said the survey many of the anti-competitive not tying sales of below-cost showed that both foreign practices thoroughly docu- minilab processing equipand domestic manufacturers market do not breach the had adequate channels to this sector," and "whitewash distribute their products to the significant distribution ing to a survey by the Japan retailers, and that subsidiaries of Kodak, Konica and Agfa performed similar func-

pendent) primary wholesalclaims that Fujl had been arrangements, Miti said.

mented by the US and EU in problems that exist in this

sector," Ms Barshefsky said. While the JFTC said that tions to the (nominally inde- Fuji had not breached any trade rules, it did suggest ers of Fuji products. There some ways in which Fuji was no factual support for might alter its business practices. Fuji should review its Trade Organisation. Japan's coercing primary wholesal-Ministry of International ers into exclusive business its, and its sales promotion payments, in order to give Ms Charlene Barshefsky, greater flexibility to the pri-

ment to sales of photographic paper.

Ms Barshefsky described the recommendations as "weak and woefully insufficient". The commission was pendent agency capable of dealing effectively with such issues or addressing the riers faced by foreign companies in the Japanese market, she said.

The bitter and complicated

ment of effectively barring foreign access to the Japanese film and bolstering Fuji's dominant position. Japan's argument is that it

is a question of market structure, which is outside WTO jurisdiction, and that the exclusive wholesale arrangements at the centre of Kodak's complaints are common in photographic markets worldwide, including in the US.

The case was taken to a WTO panel last year, and a ruling is due in October this year, but appeals could prolong the dispute into 1998.

Until recently, Quebec has

tiate the 1969 agreement.

Canada's supreme court has

also ruled in favour of the

But under Order 888.

Hydro-Quebec would have to

make its transmission grid

available to Newfoundland if

the latter decided to expand

Churchill Falls and export

French-speaking province.

WORLD TRADE NEWS DIGEST

Leghold traps deal approved

European Union foreign ministers have approved a deal with Canada and Russia limiting the use of controversial leghold traps for trapping animals, throwing the spotlight on to the US, which has so far refused to accept a deal.

The agreement will avert a threatened EU ban on fur imports from the two countries. It was negotiated by the European Commission in May. but EU environment ministers last month failed to muster the necessary majority to back it, leaving the issue to be decided by foreign ministers. The UK, Austria and Bel-

gium continued to oppose the deal, saying it was madequate and had to be extended to the US. Animal rights groups also attacked the agreement. warning that it would not end animal suffering. But Sir Leon Brittan, EU trade commissioner, said the deal was a

"major advance for animal welfare". The agreement will allow wooden jaw-type traps to continue to be used by certain indigenous peoples in Russia. plus plastic-padded and under-water leghold traps although these have been condemned as cruel by animal rights groups. But it will immediately ban the use of all jaw-type leghold traps in Canada for seven of the 12 spcries for which they are used. Steel-jaw traps will be out-

lawed for the remaining five species by 2000. Efforts will now switch to getting a deal with the US. which insists on its right to continue to use steel-jawed traps unless adequate alternative methods can be Neil Buckley, Brussels

■ AIRPORT MANAGEMENT

British mission visits Mexico

A British mission representing 600 UK companies with expertise in airport management began a high-profile visit this week to Mexico, where 35 airports are to be priva-

Mr Gil Thompson, president of the British Airports Group, said UK companies planned to bid aggressively for Mexican airport concessions. Dutch, French, Spanish and US airport management companies have also expressed

Mr Jorge Silberstein. privatisation co-ordinator at the transport and communications ministry, said guidelines for the airport sell-off would be published in September. with auctions beginning at the end of the year or the start Leslie Crawford, Mexico Cita

■ SOUTH AFRICA TELECOMS

AAT's big contract hopes

Alcatel Altech Telecoms, the Franco-South African company, said yesterday it hoped to win more than half of a giant R2bn (\$438m) radio technology contract from telecommunications utility Telkom. On Tuesday Telkom announced the tender award to AAT and Lucent Technoi ogies of the US, but the exact split of the deal has not yet been decided. "We don't imagine it will be any less than 50 per cent for AAT and it could be more," said Bill Venter, chairman of Altron, the controlling shareholder of Altech, which owns 40 per cent of AAT.

The two-year contract is for the network planning, installation and supply of radio technology for 420,000 telephone lines in previously underserviced areas of Reuter, Johannesburg

US finds a lever on Canada utilities

Bernard Simon on the influence of Washington regulators across the border

S regulators are compels US utilities to open per cent of its power to proving to have more influence over Canada's power utilities than either the utilityowners or their customers. Ontario Hydro and Hydro-Quebec, two of North America's three biggest power companies, have for years displayed the traits one might expect from govern-ment-controlled monopolies

- an aversion to competition and a take-it-or-leave-it attitude towards consumers. When the federal government pushed the 10 provinces three years ago to dismantle inter-provincial trade barriers, electricity was one of the first sectors taken off the negotiating table.

But Washington's Federal Energy Regulatory Commission, FERC, appears to be succeeding where Canadian free-market advocates failed. FERC's influence north of

the border was evident in a July 9 deal between Hydro-Quebec and Enron, the US natural gas distributor. The Canadian utility will gain a foothold in the north-east US energy market by enlisting Enron to market its electricfreight companies are being ity in New England. In return, Hydro-Quebec agreed to sell Enron's gas to its customers in Quebec.

FERC set the ball rolling last year with a ruling, known as Order 888, that

there are serviced in the desired in a transfer property and the service of the

their transmission lines to all newcomers, although they can refuse access to any supplier that fails to provide reciprocal treatment.

These rules give FERC a powerful lever over foreign as well as domestic utilities. The Canadians are loathe to jeopardise their US business. Hydro-Quebec earned C\$484m (US\$358m) from power exports in 1996, equal to 6.3 per cent of total sales. The Montreal-based utility, which is one of North America's lowest-cost power generators, thanks to vast hydro-electric resources,

> north-east US. Ontario Hydro acknowledges the FERC rule could endanger virtually its entire projected 1998 export revenue, estimated at about C\$275m. Ontario has asked FERC to delay implementation of Order 888 pending an overhaul of the province's electricity legislation. The provincial government will outline its proposals soon.

sees huge potential in the

888 will hit it much harder than other Canadian or IIS utilities. The "mandated open access" rule applies only to wholesale supplies, which make up an average of only 10 per cent of US.

municipal utilities. Recent evidence suggests

Ontario has come to recognise which way the wind is blowing. Mr Allan Kupcis, Ontario Hydro's chief execu-tive, said: "The market must prevail. To disagree would be to fly in the face of all that is going on around us."

Companies have displayed the traits expected from government monopolies

Hydro-Quebec initially also took an uncompromising stand. However, it was jolted by FERC's refusal in October 1995 to sanction a partnership with Noverco, a Quebec natural gas supplier, and Pittsburgh-based Consolidated Natural Gas, a pipeline operator. The partnership would have offered US Ontario contends Order consumers different packages of energy depending on cost and convenience.

Furthermore, a breath of fresh air has swept through Hydro-Quebec since Mr André Caillé's appointment last year as chief executive. utilities' business. But Mr Caillé previously headed

According to Mr Cary Vol- while Newfoundland, the lans, an Ottawa power industry consultant, Mr most impoverished of Canada's 10 provinces, pulls in Caillé realises that Hydroonly about C\$16m. Quebec will be able not only turned a deaf ear to Newto survive but, as a low-cost producer, to prosper under foundland's pleas to renego-

Hydro-Quebec is now taking a more conciliatory stance towards Order 888. It has set up a new transmission division to give non-discriminatory access to outside suppliers. Its change of heart is especially evident in a long-simmering dispute over the Churchill Falls hydro-electric project in neighbouring Labrador.

open competition.

Churchill Falls is the world's sixth biggest bydroelectric scheme, with a generating capacity of over 5,400 megawatts. Two undeveloped sites, Gulf Island and Muskrat Falls, could boost the total to 8,500 megawatts. Hydro-Quebec buys virtually the entire Churchill Falls output under a 1969

deal with the government of Newfoundland and Labrador. The 65-year agreement has turned out to be a honanza for Hydro-Quebec. The price at which it sells Churchill Falls power is

20-30 times higher than cost. According to the Newfoundland government, the profit of about C\$600m a Ontario Hydro sells about 70 a publicly traded gas utility. year from Churchill Falls, ambitions in the US.

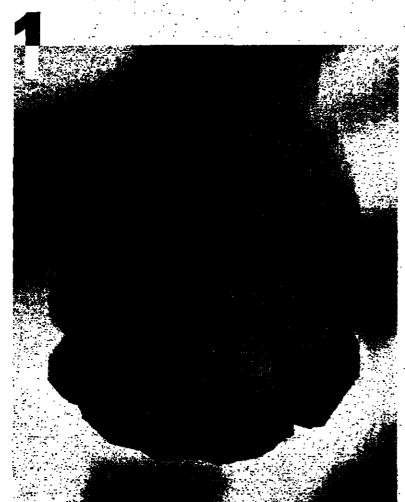
its electricity to the US. Newfoundland would be an interest in the Mexican privatisation. unlikely to consider a role

for Hydro-Quebec unless, in the words of Mr Brian Tobin, the province's premier, the "fundamental injustice" of the 1969 deal was redressed. However, Hydro-Quebec would be an obvious partner.

"If anybody knows how to develop the Upper Churchill and transmit power at the lowest cost, it's Hydro-Quebec," Mr Vollans says. Mr Tobin disclosed recently that Newfoundland

and Quebec had begun secret talks on a new Churchili Falls agreement. The two provinces aim to

reach agreement by the end of the year, allowing Newfoundland to share more profitably in its resources



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Siemens Nixdorf: User Centered Computing

By Alistair Scrutton in Lima

Peru's armed forces chiefs entered Congress late on Tuesday night as intense political upheaval seems to station be forcing the government increasingly to rely on the military.

"Never before in the history of Peru have the armed forces entered the Congress," said Mr Javier Diez Canseco, a member of the opposition United Left party. Not even during the wars of independence,"

The head of the armed forces. General Nicolas Hermoza Rios, along with almost 40 military officials. entered Congress after an invitation by the newly-appointed defence minister. Mr Cesar Saucedo, himself an army general. However they were forced to abandon attempts to address a closed

Horse

trips up

Chilean

minister

By Imogen Mark in Santiago

The beavy winter rains in

minister. He resigned on

Tuesday after admitting be

had received the gift of a

valuable horse from one

of the ministry's biggest

Francisco Perez Yoma, was

responsible for building sev-

eral blocks of low-cost hous-

ing in Santiago that leaked

badly during the June

storms. Since then the 7,000

families have been living

precariously, their homes

swathed in sheets of heavy plastic as temporary protec-tion, while the ministry and

the contractor wrangle in the courts over who was

fronically, Chile's housing

policy for low-income

most successful social initia-

Eduardo Frei congratulated

criticed for their low qual-

ministers and other mem-

bers of the Christian Demo-

presents," said one Chris-

tian Democrat congressman.

about the horse some weeks

ago, reproved the journalist

for asking a question "in

very bad taste". In his resig-

nation speech he insisted

that he "never mixed per-

sonal matters with profes-

sional or ministerial respon-

President Frei, however,

apparently took a more crit-

ical view. Accepting the

minister's resignation, he

commented that "there has

never been any legislation

about accepting pres-

ment is looking at issuing

regulations [to cover it]".

The unlucky homeowners,

beneath their flapping plas-

tic sheets, had no doubts,

A banner stretched across

The same contractor, Mr

contractors.

responsible.

session after protests from illicitly wiretapped 197 pubhad followed a concerted the opposition and after they lic figures, including dozens attempt by President Alberto had objected to the use by Mr Diez Canseco of a cellular phone to speak live to a TV

The session was called to discuss the recent government decision to strip the popular owner of a television station of his nationality

President Fujimori's approval ratings have hit their lowest level in seven years of government

iudges.

because of "irregularities" in

The citizenship of Mr Bar- argument to defend itself, so the intelligence services. uch lycher, an Israeli-born they brought in the military naturalised Peruvian, was as a weapon of last resort," withdrawn only hours after said Mr Mirko Lauer, a polithis Frecuencia Latina TV ical columnist for La Repubstation broadcast tapes alleg-ing intelligence services had

defend the government over The military officials who the case and the wiretapping ters, including Mr Alberto Pandolfi, prime minister. and Mr Domingo Palermo.

of journalists, politicians and

"With these scandals the

government was without an

lica newspaper.

entered Congress, including allegations. Cabinet ministhe three heads of Peru's armed forces, reportedly had information linking Mr education minister, denied Ivcher to "secret business deals" with Ecuador. in Congress the government had listened to telephone

> "The evidence of Frecuencia Latina is inconsistent," said Mr Palermo, who argued that the tapes broadcast on Frecuencia Latina had come from privatelyowned cellular scanners, not

conversations of opposition

politicians and journalists.

Fuitmori's ministers to

The developments have prompted street protests. Stock market prices fell and Mr Fujimori's approval ratings hit their lowest level in The entry of the military seven years of government.



President Alberto Fujimori: his ministers defended government over wiretapping revelations

Greenspan's tone positive for markets

By Gerard Baker in Washington and John Labate in New York

Alan Greenspan. chairman of the US Federal Reserve, yesterday repeated his upbeat message about US economic prospects, appearing to give a green light to the continuing bull market Santiago last month have washed out the political in equities and bonds. career of Mr Edmundo Her-As the Fed chairman gave mosilla, Chile's housing

the second day of his Humphrey-Hawkins testimony to Congress on the central bank's semi-annual assessment of the US economy. economists were broadly agreed that his tone was extremely positive for financial markets.

Stock and bond prices, which soared on the chairman's remarks on Tuesday. moved higher again yester-

benchmark 30-year treasury bond held on to Tuesday's gains, with the yield steady at 6.41 per cent.

Mr Greenspan continued to give comfort to financial markets yesterday, suggesting consumer price inflation remained subdued, even as unemployment was near a 25-year low.

Alan Greenspan is bullish on America. His latest round of Humphrey-Hawkins testimony was the most positive assessment of the US economy he has ever delivered," said Mr Bruce Steinberg, chief economist at Merrill Lynch, the New York investment bank. "Greenspan is willing to

try this experiment of low inflation right before our have been justified by a fun- possible need for a pre-emp-

research at Donaldson, Lufkin, and Jenrette, the bro-

Conspicuously, Mr Greenspan did not use the second day of his testimony to remove any of the shine from the markets' reaction or even increase further in a to his first day's comments. In the past he has often slightly shifted emphasis on the second day if he believes markets may have mis-interpreted him.

In his prepared statement on both days. Mr Greenspan not only avoided repeating his warnings of last winter about the dangers of "irrational exuberance" in the stock market, but he seemed much more open to the possibility that the surge in asset prices unemployment and low in the last year or two might mony in February about the

Industrial Average was up 42 eyes," said Mr Elliott Plat. damental change in the tive strike against inflation at 8,104. The Treasury's director of economic economy. That warning was followed "Soaring prices in the

> stock market have been fuelled by moderate long-term interest rates and expectations of investors that profit margins and earnings growth will hold steady. relatively stable, low-inflation environment," he said. He went on to suggest these expectations might be justified by recent signs that

> cal change, and globalisation of the US economy, might have shifted long-term US growth potential upwards. On the immediate outlook. the Fed chairman's bullishness also beloed markets. There was no repeat of his warning in his last testi-

a combination of technologi-

That warning was followed by a quarter point rise in interest rates four weeks later. The reaction in the fixed-income market even suggested investors might be expecting that the next move in interest rates might be down, not up.

But some analysts were concerned investors had over-reacted to the testimony, ignoring some of Mr Greenspan's more cautionary remarks. "The Fed is far from complacent and Alan Greenspan himself seems to think a policy tightening in the future remains much more likely than an easing. Given this sentiment it is hard to fathom the market reaction." said Mr Christopher Low, economist with HSBC in New York.

AMERICAS NEWS DIGEST

Republicans refine plans

Republican congressional leaders yesterday began final talks with the White House on the details of their plans for balancing the federal budget by 2002. House and Senate leaders agreed late on Tuesday on a combined package of measures to take into the discussions with the Clinton administration.

These include a \$500 per child tax credit, reduced for poorer working families who already receive a tax credit. a cut in the main rate of capital gains tax from 28 per cent to 20 per cent, the indexing of capital gains for inflation, and a reduction in inheritance tax on large estates. It was also expected to include a rise in cigarette taxes to pay for

more comprehensive child health insurance.
It was still unclear whether the final congressional plan would include a proposal, dropped by the Republicans on Monday, to charge extra premiums to high-income Americans for Medicare, the public health insurance Gerard Baker, Washington system for the elderly.

■ BRAZIL CORRUPTION SCANDAL

Workers' party chief cleared

An investigation into a corruption scandal involving Brazil's leftwing Workers' party (PT) has exonerated the party's most important leader. Mr Luiz Inácio Lula da Silva, freeing him to run for the presidency next year However the inquiry found several PT-run municipalities operated a "fraud scheme" and that a friend of Mr da Silva's, Mr Roberto Teixeira, had "abused his confidence" The scandal had threatened to sideline Mr da Silva, one

of the few politicians with any chance of beating President Fernando Henrique Cardoso in elections in October next year. Mr da Silva is now favourite to be the candidate of a group of leftwing parties. The inquiry followed allegations from a party activist that several PT municipalities had hired a company. CPEM, to falsify accounts in order to receive a higher share of government Geoff Duer, Sen Paulo

CUBA

Man held after bomb attempt

Cuban police have arrested a man with a German passport after an incident in which an explosive device was thrown into a traffic tunnel under Havana Bay. Police arrested the man at the weekend and searched the room he was renting at Guanabo, a beach resort near Havana, his Cuban landlady said. Police took away a number of small boxes for investigation.

The incident followed small bomb blasts at two Havana tourist hotels on July 12, which slightly injured three people. Cuban officials think the explosions are part of a campaign by rightwing anti-communist exiles to damage Pascai Fletcher, Havana

US mutual funds look to export markets

to have found a way groups had been one of its to export their products. Last month saw three sig-

tives. In May, President nificant links between US fund managers. flush with Argentina, by BCN, a Brazilthe ministry for building their success in selling retail half a million new homes in mutual funds and corporate managing funds worth pension funds to the Ameri- \$1.1bn initially, and will also the past three years. But the "nylon homes", as the local can "baby boom" generation, use the venture to help its and overseas financial conglomerates keen to replicate offering Latin American some of the success in their Mr Hermosilla's fellow domestic markets. Early in June, Nippon Life

of Japan, the world's largest crat party to which he life assurer, signed a joint belongs rallied to defend his | venture with Putnam Investrecord. "Everyone takes ments of Boston to manage funds worth Y80bn (\$692m). and to train its employees in Mr Hermosilla himself. the arts of servicing and sellwhen he was first asked ing mutual funds in the American style. The month ended with a

similar deal. Sumitomo Life, the third largest Japanese life group, linked with Franklin/Templeton of San Francisco, another of the largest and most successful US fund groups. To an even greater extent than Putnam, Franklin/Templeton has a reputation for specialising in emerging markets.

And at the end of last month, the New York firm of Scudder. Stevens & Clark was acquired by the Zurich Group of Switzerland. Scudder, which is privately held, maintained a large stake in the operation, and made clear the main aim of the deal was to allow it to compete internationally, particularly in Europe.

one of the blocks asked: July started with another "Minister, if we give you big tie-up, as Alliance Capitwo horses, will you give us tal, a large New York-based

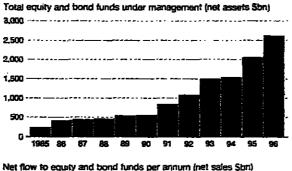
S mutual fund com- manager which is part of the panies seem finally Equitable group of companies, announced its own joint venture, offering asset management for funds sold in Brazil, and eventually ian retail bank. Alliance is Brazilian research effort funds in the US.

The flurry of activity is significant, because the US fund industry's attempts to move outside its own borders have so far been largely unsuccessful. In the US, growth of mutual funds open-ended collective investment funds - has been phenomenal. Each month, new investments exceed redemp-

tions from the funds by an average of more than \$30bn. Fund groups have been helped by the extended "bull market" in US equities of the 1990s, and by demopost-war "baby boom" genernot replicated exactly outside the US.

But they have also made at least two product innovations which could be copied overseas. First, fund companies have persuaded US investors to buy mutual funds direct, over the internet or toll-free numbers, the way they would buy a "commodity" product such as motor insurance, or make transactions in their current account. Second, corporate pension

Mutual funds conquer the US



graphic factors, with the plan administrators now typically allow their employees ation now approaching to put their pension cash retirement and saving into mutual funds through heavily. These factors are so-called "401(k)" plans, and fund managers have developed highly sophisticated systems to serve them.

With emerging markets now reaching the stage where employees want to save, and many established state social security systems facing the need to switch to the US pension model, US fund groups believe they now have an opportunity to export their expertise. But to date most US companies bave found expansion surprisingly difficult.

There is also controversy within the industry over whether expansion should be attempted organically, via joint ventures, or by taking direct equity stakes.

Alliance Capital has pursued international expansion more energetically than many, with offices in 17 countries and total funds outside the US of about \$23bn. But Mr David Williams, its president, said the ity. company was still "up against it". He said: "American firms

are somewhat disadvantaged because we are all structured along specialist lines. A traditional pension fund in

Britain, for example, is a Scudder: "We have pursued global balanced account a number of joint ventures with a UK equity bias." Selling direct to the public with large commercial firms

is also a problem for the US, which clearly have an because of the different dis- investment outreach, and tribution systems. "Banks in were very interested in our Europe have a hammer-lock investment expertise. But in themselves." Elsewhere, the problem is the lack of an business." established "broker-dealer" network to serve investors ing foreign staff often and distribute products, involved tying up precious although Japan comes clos- resources, and that such

est to being an exception. Some US fund managers distribute direct to the public, led by Fidelity Investments of Boston, which became the world's largest fund manager on the back of the tactic. But Mr Williams describes this approach as "prohibitively expensive". Few apart from Fidelity itself, which has now built an influential position in the UK market without approaching the dominance it enjoys in the US, have the

resources to attempt it. Hence Alliance Capital's solution of forming alliances in emerging markets. According to Mr Williams: "In the least developed markets we've chosen to try to create exclusive arrangements with a financial institution which we perceive to have distribution capabil-

Alliance Capital has already used this strategy to link with a bank in Poland Other companies have rejected the joint venture. in Asia and Latin America

global asset He pointed out that trainventures were often made from a position of weakness - "one side doesn't have dis-

tribution, the other doesn't have fund management". Once a venture is well established, it is easy for the two partners to become competitors, he adds.

However, Mr Villani, like others in the industry, has great confidence for the future: "We begin with the premise that the arguments for mutual funds are compelling. It took a long time for that to be accepted in the US.

in the long run, he says, growing realisation by consumers of the need to put at least a little money into the stock market, and changing pension policies, should ensure the industry's international expansion: "Outside the US we firmly believe funded pension systems will emerge. That could be a stimulus for the development of equity capital markets. That's why we are doing this."

Fears over mutuals 'overstated'

Fears that mutual fund investors would withdraw quickly from the market in the event of a downturn. leading to a "downward spion the market, and so far all cases the strategic short- ral in asset prices" are overthey've been loath to distrib- comines persuaded us that it stated, according to research ute products not managed by was not the way to build a from the Federal Reserve Bank of New York, John Authers in New York writes.

In its Economic Policy Review for this month, the bank published research into the correlation between flows of money into mutual funds and market performance. The strong net sales registered by the fund industry in the last two years have coincided with a strong bull market in equities, leading several economists to suggest a downturn could lead to swift and heavy sales.

Some economists, such as Mr Henry Kaufman, a highly influential commentator, have also pointed out that modern on-line and telephone distribution systems have made it possialmost instantaneously.

But an analysis of fund flows over the past 10 years published by the bank finds that short-term market movements have "little to no effect on mutual fund flows" in equity funds. There was a slight effect for more conservative funds, but a market decline of I percentage point for government or corporate bonds would lead to an outflow of less than a tenth of I per

John Authers cent.

Venezuela watchdog irks investors **CONTRACTS & TENDERS**

The two companies, Telcel

and Movilnet, were told that

excessive demand appears to

have caused a deterioration

to sort out the problem

before expanding their cus-

government decision-mak-

ing. These have contributed

opening up for the first time.

Earlier this year the tele-

communications regulator.

Conatel, delayed a contrac-

tual rate increase for the

in service and were ordered

MANCHESTER AIRPORT PLC TERMINAL EXTENSIONS CONTRACTS FOR ENGINEERING SERVICES MAINTENANCE

AND THE PROVISION OF SECURITY SERVICES

lender list for the following contracts:

CONTRACT NO. 1

* Provision of Engineering Services Maintenance

This single contract will cover mechanical systems, electrical distribution systems at 240V and 415V as well as buggage handling systems, CCTV, public address, lifts, escalators, pastenger loading bridges, information display signs and monitors, standby generation, UPS and security equif CONTRACT No. 2 PROVISION OF SECURITY SERVICES

This single contract will cover the provision of static guards, passenger screening and access control. Service providers must have formal legislative approval to carry out these services and meet UK DETR Category 4 standards or

Both contracts will be for a period of approximately 3 years. In addition for each contract Manager Airport PLC will require one party to undertake single point liability for the provision of services. Guarantees and performance bonds may be

equired and applicants may be requested to attend an interview. Interested parties are requested to supply 3 copies of information containing details of the company profile and in-house capacity to provide the relevant service with particular reference to legislative requirements, customer care and peak time operational requirements. The information should also contain a profile of the contractors company structure in relationship to any subsidiary, associate, parent or ultimate holding company, together with a list of directors, management and administrative suff and technical support staff by discrpline.

A summary should also be given of necent relevant projects for the provision of services on a live airport or similar environment indicating who within the company was responsible including key site and head office staff. Interested parties should also submit indicators from the contractors last 3 years audited financial accounts which sh

mucresses parties around any wanter ratio, and test mito, pre-tax profit, return on capital comployed, identification of annual burnover and current account balance. Contractors may be requested to submit additional information at a later stage. Applications to be included up the tender list should be submitted to the Administration Manag Olympic House, Manchester Airport PLC. Manchester M90 IQX by 18 August 1997 at the latest.

coms watchdog to ban the country's two cellular transition to a market econ-

by Venezuela's tele- pany CanTV on the excuse ating to subsidise the differof inadequate information on ence. "It defeats the purpose. the company's cost struc. Why have a concession if telephone companies from ture. Analysts suspected you're going to subsidise in taking on new customers attempts to renege on the highlights the difficulties previously agreed rate forinvestors are facing in a mula. In the transport and

ited to low rates. Inadequate power sectors, companies legislation and untrained

Regulating agencies tend to make decisions on political grounds

also complain about arbitrary rate policies. The government simply

But industry analysts see is not convinced that conthe decision as part of a sumers should pay for cerwider problem of inadequate tain public services," said regulations and arbitrary Mr William Phelps. who advises an international consortium on a \$280m highway to investor uncertainty when improvement and operation whole areas of business are contract. When the consortium

began charging its \$0.42

two-way toll, popular pro-

tests broke out and the min-

istry of transport slashed the

regulators add to the frustration of operators. An April tender held by Conatel for a rural telephony contract was shrouded in controversy and legal uncertainty. The Venezuelan-American

the end?" asked Mr Phelps.

Yet problems are not lim-

the recent controversy between Conatel and private companies in basic and cellular telephony has overshadowed the positive Rojas adds that the governinvestment climate in the ment has already paid a high country. "It brings with it an political price as a result of apparent disorder and indif- important rate adjustments

The decision this week telecommunications com- rate in half. It is now negoti- ference that could inhibit over the last 18 months. foreign investors." The underlying problem seems to be that regulating

agencies make decisions on political rather than technical grounds. "It's a cultural thing. The concept of a regulator here is that of a protective parent," said Mr Robert Bottome, head of the consultancy Veneconomia. Others attribute the rem-

nants of populism to the survival of hardliners in ministries unwilling to give up Mr Freddy Rojas Parra,

minister of industry and commerce, defends the government's policy, saying that investors are expecting too chamber of commerce says much too quickly.

"We've made enormous progress in adjusting rates and prices but there's also a very large backlog." Mr

9:

Once consumer purchasing power recovers from the impact of last year's austerity measures and from a five-year recession, remaining price controls will be removed and rates adjusted. he said. One area where there have

been improvements is in the hanking sector Following the 1991 financial sector crisis, the superintendency of banks has regained the confidence of foreign investors, while ensuring more safety, transparency, and public information.

"It's a slow process but the government appears to have realised the importance of establishing clear rules of the game and strengthening the agencies that enforce them," said Mr Luis Soto, head of the private public investment promotion agency Conapri.

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Raymond Colitt

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LUMEN ON

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OVERVISIO

Israeli cabinet tackles budget deficit The Israeli government yesterday agreed a Shk800m (\$228m) cut in this year's budget despite opposition

four other ministers. ing all but three of the 18

from Mr Yitzhak Mordechai.

the defence minister, and

But finance ministry offi-fals said the cials said the deficit would next week to explain how

probably be closer to 3 per they will implement the cent as growth in the econ-cuts. omy slows to about 2.5 per cent compared to 4.4 per cent in 1996.

The cuts are in two parts: the general operating budget will be reduced by Shk600m, while a further cut of Shk200m was needed to The 1.1 per cent cut, affect- make up for Israel's agreement to transfer \$50m of US ministries, is intended to aid to Jordan and Shk20m to reduce the budget deficit to fund the distribution

2.8 per cent of gross domes- of gas masks to the The ministers have until

Officials said yesterday they were confident the package would be accepted

by parliament. "These cuts are a good signal," said Mr Eli Nacum, chief trader at Zannex Securities. "It shows that the new finance minister is determined to stick to a tight fiscal policy in line with the Bank of Israel's tight mone-

tary policy." Yaakov Neeman. appointed finance minister this month following the res-

who found it impossible to Instead, he is now saddled work with Mr Benjamin Netanyahu, the prime minister, has quickly established his credentials as a tough negotiator. By cutting the defence budget by 0.6 per cent, "he has shown there

are no sacred cows left," said

Mr Nacum. Mr Mordechai, who net meeting, sitting in a separate room in the prime minister's office throughout the marathon session, had wanted an additional

with finding ways of cutting defence spending by Shk205m.

Mr Netanyahu, who

appears to be putting finally in place a consistent fiscal policy and his privatisation programme, said it was necsary to press ahead with the cuts given the slowdown declined to attend the cabi- in the economy as well as the fall in immigration which is expected to decrease from last year's 71,000 to 63,000 this



Neeman: has shown there

Zimbabwe prepares tough budget medicine

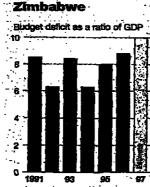
Tony Hawkins on the delicate challenge of restoring stability to an ailing economy

Zimbabwe's finance minister, Mr Herbert Murerwa, will have a mountain to climb when he presents the 1997 budget

Not only must be seek to restore economic stability to a country with real incomes down 16 per cent since 1991. rapidly growing unemployment, 21 per cent inflation, interest rates of at least 27 per cent, a budget deficit at more than 10 per cent of GDP and an overvalued exchange rate, but he must win the approval of the International Monetary Fund and negotiate a structural adjustment

The budget has also to be sold to an electorate increasingly disillusioned with the government - exemplified tricity tariffs have been by a rash of strikes and goslows across the economy. In spite of the scale of the task, financial markets have already given Mr Murerwa the thumbs-up. In recent in real terms, while share get deficit for the year to on the Zimbabwe stock

Such market optimism contrasts sharply with developments on the ground. In recent days, the country has been hit by the worst industrial unrest - some of it vioin a government ban on all months.



demonstrations for the next fortnight. Employers have been granting pay increases of 25 per cent to 40 per cent - and in one reported case as much as 70 per cent. Elecincreased by 136 per cent. spread over three years.

Against this inflationary background, a credible budget will require a blend of ductivity growth seem spending cuts and tax almost certain to push inflaweeks, the Zimbabwe dollar increases. In May, Mr Murhas continued to appreciate erwa revealed that the budprices have hit record highs June 30 was likely to be 11.4 per cent of GDP compared with the previous year's 10.1 per cent and a targeted 8.5

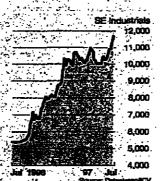
Since then the situation has deteriorated with the announcement of a Z\$9.1bn (US\$800m) civil service pay lent - for 17 years, resulting award covering the next 18



in last year's budget, the finance minister also predicted that inflation would slow to 13 per cent by mid-1997. In fact, it has barely changed over the past year. averaging 19 per cent. Now, sharply higher fuel

and energy prices, rapid monetary expansion and wage awards way above protion into the high twenties later in the year. This could force the central bank, which until April was committed to lowering rates, to raise its rediscount rate from the current level of 25 per cent, with a subsequent further increase in bank lend-

On the positive side, the combination of strong economic growth - 6.7 per cent last year and an estimated 4



per cent in 1997 escalating inflation itself will boost budget revenues. "Smoke and mirrors" will also come to Murerwa's aid in the form of the revaluation of GDP. This, in turn, should reduce the budget deficit ratio from his May forecast of 11.4 per cent of GDP to something closer to

10 per cent. Even so, the recent civil service wage award will standing at around Z\$13bn.

Mr Murerwa is not short of advice on how to reduce this. The IMF reportedly wants him to increase energy taxes substantially; raise taxes on beer and tobacco; force civil servants to pay higher pension contributions; and cut government grants. Other suggestions include increasing prices for

state services, retrenching electorate is becoming more people from the uniformed services (including the police force), and the imposition of a land tax which could bring in pwards of US\$100m.

he practicality of some of these suggestions is questionable. Levying a land tax is likely to require a good deal of preparation, while the IMF's suggestion that Zimbabwe should reduce the size of its police force suggests that it rejects, or disregards, the World Bank's 1997 report on the importance of institutional capacity in the development process.

Nevertheless, the IMP's budget proposals are intended to save - or bring in - an extra Z\$6bn (about 4 per cent of 1997/98 GDP). This, coupled with additional privatisation revenues, might make it possible to bring the deficit down to levels which the IMF could recommend, with a moderleave the budget deficit ately straight face, to donors

and lenders. Even so, Mr Murerwa's task is an unenviable one. If he produces the tight fiscal budget the country needs, he will probably exacerbate inflation in the short-term, while alienating both the business community and the

The budget, moreover, find the courage to break the comes at a time when the mould.

German business

German business

International business

International business

Employees (30/6/97)

German operations

increasingly disillusioned with the government. In recent months, President Robert Mugabe's administration, now in its 18th year, has been hit by a series of embarrassing revelations surrounding the award of cellular telephone licences; the contract for the new Harare international airport terminal (won by a company in which the president's nephew is prominent); housing loans to senior govern ment officials and politicians; and a scandal over

payments by the War Veter-

ans Fund. At the weekend, cabinet ministers were howled down by angry war veterans and forced to flee a public meeting via the back door - in spite of offering pension payments that will cost the taxpayer Z\$840m a year to 70,000 war veterans. This. and recent industrial unrest, indicates that the electorate's patience is wearing

But while there is no viable political opposition waiting in the wings, and no elections for three years, the government's recent conduct suggests it still prefers the high inflation climate to the tough fiscal measures necessary to reverse the fiscal follies of the last decade.

Perhans Dr Murerwa will

27,2

55.6

24.9

DM billion

- 2%

+23% + 10%

- 1%

+ 18%

+ 2%

+ 6%

+ 28%

+ 3%

INTERNATIONAL NEWS DIGEST

UK and France in Africa pact

Britain and France yesterday agreed to join forces to promote democracy and economic development in Africa, and to co-operate in restraining arms sales.

The agreement, reached at talks in London yesterday between Mr Robin Cook, the UK foreign secretary, and Mr Hubert Védrine, France's foreign minister, follows the arrival in power of socialists in Europe's two biggest excolonial powers and its largest weapon exporters. Mr Cook has promised to give human rights more weight in UK foreign policy, while the socialist government in Paris is distancing itself from France's recent record of backing

dictators like ex-president Mobutu.

The two ministers discussed the idea of a European arms exporters' code of conduct so that if one exporter refused to sell to a particular country, others would not grab the business David Buchan, London

ALGERIAN VIOLENCE

Extremists kill family of 15

A wave of killings in Algerian villages has left dozens of people dead in recent days, according to local media reports. In the village of Yemma M'guita, in the wilaya (province) of Blida, 39 people, including a family of 15. were killed, according to Le Matin, the French daily, In Benachour, also in Blida, four women and three men had their throats slit, while a third attack was reported near the town of Souk el Ghoslane, east of Blida, in which nine men were killed. A newspaper close to the presidency said this week a massive army sweep in Hattatba, west of Algiers, had led to the killing of 90 militants. Algeria announced yesterday that local elections

Roula Khalaf, London would be held on October 23. ■ GENOCIDE IN RWANDA

Belgian journalist arrested

The United Nations Rwanda genocide tribunal yesterday netted its first European suspect - a far-right Belgian journalist who worked for Radio Milles Collines in Kigali. Mr Georges Ruggiu, who is alleged to have made broadcasts urging Hutus to eliminate Tutsis and political moderates in 1994, was arrested by Kenyan authorities. Scores of Hutu suspects have been rounded up in Kenya following a fence-mending visit to Nairobi by Major Paul Kagame, Rwanda's military strongman.

Michela Wrony, Natrobi

HUMAN RIGHTS IN BAHRAIN

US is 'failing to speak out'

The US government was criticised yesterday for failing to speak out against human rights abuses in Bahrain, a major naval port for US forces in the Gulf. Human Rights Watch urged the US and UK to use their military and political ties to put pressure on the ruling Al Khalifa family. A report by the US-based human rights campaign group said wide-scale government and security forces violations of the civil and political rights of Bahrainis were a major factor behind nearly three years of unrest, which has led to bomb blasts and rioting. The Gulf banking centre's Shia majority has been demanding political reforms Roule Khalaf from the Sunni rulers.

SIEMENS

International operations Communications and Capital expenditure Information drive growth

International markets continue to boom

Information for Siemens shareholders

During the first nine months of the current fiscal year, the communications segment and Siemens Nixdorf Informations systeme AG (SNI) continued to drive growth at Siemens. The components segment also gathered momentum following a slow start at the beginning of the year. Buoyant business in the Americas and Asia-Pacific more than compensated for a light decline in Germany.

Growth was again generated exclusively by international business, where the double-digit increase was favored nearly four percentage points by positive currency translation effects and around three percentage points by the first-time consolidation of new companies. Business in Germany, in contrast, edged off slightly. International business accounted for 67% of the total orders.

Siemens profited from the continuing strong economies in North and South America, pushing up orders

26% to DM16.5 billion. In the U.S. alone, business rose 20% to DM10.7 billion, compared with DM8.9 billion last year. The Asia-Pacific region continued to show dynamic growth as orders soared 45% to DM11.5 billion. Outside Germany, business in Europe also flourished, with orders climbing 13% to DM22.9 (1996: DM20.2) billion.

The communications, transportation, and information segments again posted double-digit growth as their international business continued to boom. Health care and components returned to higher growth rates; Semiconductors gathered momentum again with double-digit growth. Medical Engineering's international business more than compensated for stagnating domestic demand.

While the company's international workforce increased largely due to the first-time consolidation of new companies, the domestic workforce was reduced through divestitures and spin-offs.

Net income was DM1.705 billion. Lower earnings in Semiconductors, Medical Engineering and Transportation Systems were offset by higher income in most of the other operating groups.

Additional information is available on the Internet: http://siemens.de.

Note: In accordance with German legal requirements, the information contained in this Interim Report has not been audited. Copies of the Interim Report are

available from S.B.C. Warburg. attn Mr C. Ward, 2 Finsbury Avenue, London EC2M 2PP on request.



Hopes rise in

airline dispute

Hopes of a settlement in the British Airways dispute rose

vesterday after managers and cabin crew representatives

severely disrupted services. Representatives of the TGWU

transport union met managers for several hours at Heath-

A joint statement said last night: "Talks between Brit-

row airport with Acas, the conciliation service. Union

trim £42m (\$70m) from its cabin crew costs.

leaders tabled their written proposals on how BA could

ish Airways and the TGWU concerning the cabin crew

dispute are continuing with the assistance of Acas, and

be made until these talks are concluded." Both sides

both parties have agreed that no further statements shall

seemed confident they could agree on the savings, part of

the airline's Elbn efficiency programme.

Mr Bob Ayling, BA chief executive, said: "We will need

time to fully evaluate the proposals and if they meet with the approval of everyone, including the cabin crew them-

engaged in talks, two weeks after a three-day strike

Ministers end free university tuition

By Simon Targett, **Education Correspondent**

The government yesterday took the historic decision to end free tuition in UK universities, prompting signs of the first backbench

revolt to the Labour government Mr David Blunkett, the education secretary, ordered the end of free higher education for all after accepting recommendations from an advisory committee that charging students £1,000 (\$1,670) per year tuition fees was the only long-term solution to the "crisis" in the university sector.

The proposals are contained in a long-awaited review of higher education led by Sir Ron Dearing.

Sir Ron's report, published yes-terday, calls for the biggest He also side-stepped Sir Ron's basic "threshold" standards for all and effectiveness of higher educa-

The government, in a quick-fire £370m injection of public funds. response, welcomed the report as "coherent and thoughtful". Mr Blunkett promised there would be a white paper in the autumn.

But Mr Blunkett rejected Sir Ron's preferred option for student contributions, choosing a repayment system which, while raising more money for universities, would leave students from poor families

shake-up in the university system plea that the effects of planned for 35 years. It makes recommenda- cuts in university funding over the tions to charge tuition fees, expand next two years - which Sir Ron student numbers and introduce said would damage the quality

tion" - should be alleviated by a

The announcement to charge tuition fees prompted Lord Glenamara, a Labour education secretary under Harold Wilson, a former prime minister, to threaten to resign the Labour whip. He said he was "ashamed" of the government's proposals.

Mr Ken Livingstone, another leading Labour leftwinger and the

believed 70 per cent of Labour ates could enter higher education backbenchers shared his view, but that the party's tight discipline

would see most toe the party line. Senior sources indicated that the opposition Conservative party would vote against tuition fees, although Mr Stephen Dorrell, the shadow education secretary, is likely to attack the form in which the government proposes them rather then the principle.

higher education for the next 20 vears, the Dearing committee said the government should lift the cap on student numbers.

It would like to see 45 per cent participation rates, and anticipates

In a report presenting a vision of

against the proposals. He said he that an extra 300,000 undergradueach year by 2015. The committee also said the gov-

> ernment should underpin academic standards, which employers think have slipped in recent years, by establishing a national pool of expert external examiners and by laying down basic "threshold" standards for all degrees.

Mr Blunkett said the government had "taken Sir Ron's recommendations and built on them". It acknowledges universities are underfunded, claiming it would cost the taxpayer £6bn by 2015 to increase participation and restore the level of funding students enjoyed in the 1970s.

selves, then BA will seek to move matters forward as quickly as possible.

■ STERLING STRENGTH

UK NEWS DIGEST

Steel chief attacks government

Sir Brian Moffat, chairman and chief executive of British Steel, yesterday criticised the government for failing to do enough to stem the rise in sterling. Sir Brian said at the company's annual meeting: "We support the government's battle to keep inflation at low levels but believe it is unrealistic to put virtually all the pressure for these actions on interest rates when governments of other EU member states are using fiscal policy rather than interest rates as their response to the threat of inflation."

Sir Brian warned that sterling's strength was putting pressure on the company's margins and impairing the competitiveness of many of its UK customers, who were exporters. The threat to exports would in turn bring further threats to jobs, he said, British Steel was last year the UK's fourth biggest exporter, with exports of \$2.7bn

■ MONETARY UNION National debate urged

The Trades Union Congress yesterday urged the government to lead a national debate on European monetary union and welcomed the positive shift of emphasis by the Confederation of British Industry, which this week advised the government to make an early pledge to take Britain into Emu. Mr John Monks, general secretary of the TUC, said the argument about Emu shifted in favour of British entry with each upward jolt in the value of the pound. The TUC called on the government to help bring down the value of sterling to a "realistic and competitive" rate of nearer DM2.50 compared with its present level of DM3. It said the high level of the pound was "already having a damaging effect on the export sector . . . with an overvalued currency threatening major job losses in many of the export industries". Mr Monks said: "We are now attracting hot money because of a combination of high interest rates and the fact that we are unlikely to be in the first wave of membership of Emu. if the project

STOCK EXCHANGE

goes abead on time.'

Electronic trading plan approved

One of the last hurdles to introducing electronic orderdriven trading of FTSE 100 shares was cleared yesterday when the plan drawn up by the London Stock Exchange the main regulator in the City of London. But SIB warned that if the exchange's regime for trading blocks of shares away from the order book led to the main market being undermined, it would press the exchange to introduce

Order-driven trading, under which investors and brokers can place bids and offers for shares on an electronic order book that will appear on all traders' screens, is due to be introduced by the exchange on October 20. The government's plans to bring the regulation of UK

financial services under one roof took shape yesterday with confirmation that the planned super-regulator would also take responsibility for insurance and mutually owned savings and loans institutions.

■ DEVOLUTION

Rethink pledged on Scottish MPs

The government will today pledge to look again at Scotland's over-representation of MPs in parliament – 72 out of 659 - as it launches the most significant part of its proposed overhaul of the UK constitution. A policy paper on devolution will set out the transfer of legislative and administrative powers to a new parliament in Edinburgh, which is almost certain to be approved by voters in Scotland in a referendum on September 11. It will make clear that responsibility for negotiating with the European Union will remain firmly in the hands of ministers based

■ BEEF CRISIS

Sharp fall in number of BSE cases

A sharp fall in cases of "mad-cow" disease among cattle was reported in the latest progress report on BSE from the agriculture ministry. The report said "a continued improvement is expected for the future". The number of clinically suspect cases at June 30 this year was 56 per cent lower than the same time last year and 70 per cent down on 1995.

Mr Jack Cunningham, the government's chief agriculture minister, said the figures showed "the measures taken so far are having a dramatic effect on numbers of

Cost of college degree could hit \$13,000

By Simon Targett, Education Correspondent

Students face flat-rate tuition fees of around £1,000 (\$1,670) from next year under proposals which, added to loans for maintenance, would push the cost of a three-year degree course to around £8,000.

But Sir Ron Dearing's committee said elite "ivy tor could be seriously damleague" universities should not be allowed to charge higher fees, although it did not rule them out as a long term option.

It also warned the government against raising the tuition fee contribution without parliamentary approval.

The widely leaked recommean the end of free higher education for all, is seen as the best way of rescuing uni- graduates. versities from a dire financial crisis.

According to the commitadditional £350m in 1998-99 and £565m in 1999-2000. This additional annual funding requirement is expected to rise to nearly £2bn in 20

Tuition fee contributions calculated at 25 per cent of tion.

the real tuition costs - are expected to produce £350m after the first year, rising to

£900m after 18 years. To boost the university sector's short-term financial needs, the committee is also asking government to reduce planned spending cuts, put at 6.5 per cent over the next

If these go ahead, the secaged, the committee warns. It recommends a 2 per cent cut over two years, which would require additional funding of just over £100m in 1998-99 and £270m in

The committee's decision to recommend tuition fees is justified by evidence showmendation, which would ing that graduates receive salaries between 11 and 14 per cent higher than non-

It also says that students will become more demanding of institutions, forcing tee, the sector requires an up standards; that it would help to level the playing field between full and part-time students; and it would mean there was a clearer expectation that the funding released should be reinvested in higher educa-



The fees plan is justified by evidence that graduates get salaries 11-14% higher than non-graduates

Graduates in work would pay back an income-continthrough the Inland Revenue. the tax collection agency, those, the UK government encourage those who can

which was selected because it already has arrangements for assessing income and securing payments from almost all of the working population.

The Revenue would collect the loans on behalf of a new-Agency, which would streamline the number of student support bodies. This currently exceeds 160.

This "graduate commitment scheme" would be similar to the contribution gent government loan schemes in Australia and New Zealand. But unlike rate of interest on loans to part of loans in the same

would not be allowed to increase unilaterally the pro-portion of tuition costs paid by graduates.

The committee says such a change should not be allowed to take place without an independent review ly-formed Student Support and the assent of both houses of parliament.

The money accruing from tuition fee contributions could be slow in filtering through the system. To remedy this, the committee suggests discounts for up front payment or a modest real

afford it to make a contribution at the time of study. Proposals to secure private

finance for loans - instead of government finance - were rejected because the committee was not satisfied they would deliver value for топеу.

But in order to remove the loan book from the public spending borrowing requirement, the committee recommends the government folinternational accounting practice, which does not treat the repayable

lows way as grants to students.

NI talks in doubt as arms plan is rejected of helicopter crash

By John Murray Brown in Belfast and John Kampfner

The government's proposals for paramilitary arms decommissioning in Northern Ireland were rejected yesterday by the region's three main pro-British unionist parties, casting doubt on the prospects for talks in September aimed at bringing them together with Sinn Fein, the political wing of the Irish Republican

With the fringe "loyalists" also abstaining from yesterday's vote at the multi-party talks, the UK and Irish governments said they would be inviting parties to bilateral consultations during the summer to try to ensure the start of substantial negotiations on Northern Ireland's

The document the parties rejected calls for the para-militaries to "consider" taking their weapons out of commission in parallel with progress in the talks. province's largest party,

the negotiations. But the minister, denied the governhard-line Democratic Unionists and the small UK Unionists said they were quitting.

Ms Mo Mowlam, chief Northern Ireland minister in the UK government, said her determination to start in September was "beyond doubt". Mr Ray Burke, the lrish Republic's foreign minister, warned that no one would be allowed to block the process Ms Mowlam, due to meet

Mr Burke in Dublin, the capital of the republic, on Tuesday, said the two govern-ments would take "all the necessary steps" to ensure the talks started on time. Earlier Mr Mitchel McLaughlin, chairman of Sinn Féin, warned that if unionists were allowed to hold back progress it would "spell for all of us a return to the conflict we were happy to leave behind". Mr Gary McMichael, of the

linked to "loyalist" paramilitaries, accused the DUP of "bolting for the door with The Ulster Unionists, the the first sight of the enemy". ing to impose a solution over insisted they would stay in Mr Tony Blair, the prime parties.

ment had shifted its position on decommissioning to

accommodate republicans. Responding to the first public stirrings of concern from the opposition Conservatives, the prime minister said that while welcoming the IRA ceasefire the government was "not the slightest bit dewy-eyed" about it and understood the cynicism felt by some in Northern

Mr Blair was asked by Mr William Hague, Conservative leader, to undertake that "there will be no question of substantive negotiations with Sinn Féin proceeding without early parallel decommissioning of illegal terrorist weapons". Mr Blair responded that

his stance had not changed: "It is our desire to see decommissioning during the course of the negotiations." He rejected suggestions Ulster Democratic party, that, with the Anglo-Irish paper failing to achieve sufficient consensus at the talks. the government was prepar-In the House of Commons, the heads of the political

MPs question cause

By Liam Halligan and Jimmy Burns

The official cause of the Chinook helicopter crash, which killed 25 Northern Ireland intelligence experts in June 1994, was yesterday called into question by the new defence committee.

In a private meeting, the House of Commons committee agreed to ask the Ministry of Defence for more explanation of the Royal Air Force's verdict - that the crash on the Mull of Kintyre in Scotland resulted from "gross negligence" by the two pilots - in the light of strong objections from ex-RAF servicemen and a Scottish sheriff's report that the

causes remained "unclear", In a separate development, the National Audit Office, the public spending watchdog, has received information raising questions about the way an updated version of the Chinook was re-introduced into service prior to the crash. after a refit by Boeing, its nufacturer. The NAO is considering Chinook flight trials as part of a forthcoming investigation into MoD procurement. Mr Michael Tapper, the

father of one of the dead pilots, hopes that both the NAO and the committee will examine the fatal accident inquiry of Sir Stephen Young, a Scottish sheriff. Sir Stephen's report was "unable to determine a defi-

nite cause" of the crash. after hearing former RAF pilots declare that colagues had refused to fly the Chinook Mark 2 similar to the one that crashed because they had identified technical problems during

Stephen's open verdict meant "the RAF has failed to adhere to its own regulations - that only in cases where there is no doubt whatsoever should deceased air crew be found negli-

In a letter to the sheriff, the MoD admitted that trials at a UK air force base had been temporarily suspended after a Mark 2 had experiexamining evidence from the ground.

the period leading up to the crash there were a number of other incidents involving airborne Chinook helicopters, of which "approximately five" were due to

technical malfunction. With the RAF's verdict complicating payments of compensation to the two pilots' families, the MoD is now understood to be putting pressure on them to settle out of court. Although the NAO's remit

is essentially financial, a senior official confirmed that a indement of whether Chinooks were introduced into service in a "sensible and cost-effective way would have to consider the still disputed circumstances surrounding the helicopter's most controversial episode.

Since the beginning of the

the MoD has been under allegations that technical failure might have been responsible for the crash after the Chinook had been its refit

Grumbling designers enlisted to modernise nation's image

esigners and architects often But the community fight for the attention of prospective patrons, but at a has an uneasy reception for the design community this week, Mr Tony Blair, the prime relationship with minister, pointed to Mr Peter Mandelyou've got any ideas for the millennium dome, tell him."

The gathering included architects and designers from the worlds of fashion and industry including Mr Ron Arad, Mr Tom Dixon, Mr Ozwald Boateng, Mr Nigel Coates, Mr Jasper Conran and Mr Ross Lovegrove.

Mr Blair made it clear he had invited them because he wanted to use their talents. Showcasing their work in the millennium dome - the London exhibition centre to celebrate the year 2000 is one thing but if the Labour government intends to exploit design's full economic potential, it must also address the complex issue of design's uneasy relationship with the financial

and corporate sectors. British designers have long grumbled

son, his special adviser, saying: "If business, Writes Alice Rawsthorn

about being neglected in their own country. There are dozens of examples of highly educated Britons whose talents are exploited abroad: from Mr John Galliano and Mr Alexander McQueen, chief designers at Christian Dior and Givenchy, the Paris fashion houses, to industrial designers such as Mr Jasper Morrison and Mr Lovegrove, most of whose clients are German and Italian companies.

Until now, successive governments have done little more than listen to the complaints. This week's reception initiated by the prime minister's policy unit after discussions with the Design Council, the publicly-funded bod,

which promotes UK design - was intended to signal Labour's determination to act. Mr Blair, who highlighted the eco-

nomic importance of the creative industries in an article in the Guardian newspaper on Tuesday, has identified three projects for which he plans to harness the UK's design

One is the millennium dome, and another includes the international events - such as G7 summits - that the UK will host over the next three years. He sees them as showcases for contemporary design and other creative sectors, such as film, music and multimedia. The third priority is to improve the design of airports, railway stations and terminals which define foreign visitors' first impressions of the

The three projects will be the subject of brainstorming sessions organised by the Design Council this autumn. Many of those present at this week's



Image makers: Jasper Conran, Oswald Boateng and Ron Arad

als for the prime minister's office. Spotlighting designers at highly publicised international events should provide welcome publicity for them and help Labour's efforts to modernise

the aim of producing practical propos- pics as did France at the 1989 bicentenniai celebrations. But these initiatives may simply suc-

ceed in making British designers appear more attractive to foreign companies. There is no guarantee it will become easier for John Galliano to Britain's tweedy traditionalist image. Spain successfully deployed a similar secure investment to operate in the Alice Rawsthorn is a member of the reception will be invited to attend, with strategy at the 1992 Barcelona Olym- UK, or for Jasper Morrison to win com-

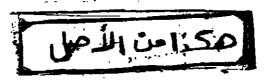
missions from British companies such as the DM500m (\$277.7m) tram system he recently completed in Germany.

To tackle these problems, the government needs to embark on a long-term exercise of encouraging the City of London and industry to adopt a more imaginative approach to design. There are some encouraging signs.

The UK's image is being examined with a view to an overhaul and Demos, the think tank, will publish a study on the subject this autumn. Mr Mark Fisher, the arts minister, is

looking at ways of improving public sector procurement. His department has asked the Design Council for advice on developing a new identity to mark its name change from Heritage to Culture, Media and Sport, hoping to set an example for other departments.

This week's reception proved that Mr Blair has the will to exploit design more efficiently. He must now find the



ironic. It is two hours of

American Chekhov in which

eight gay friends meet in a

over three holiday week-

Gregory (Stephen Bogar-

dus), a "brilliant choreogra-

manse with his blind boy-

long-married gay couple, the

(played by squat, scrunch-

twin brother.

with exclamation

points can spell doom.

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lowns beneath the tears

like unfunny jokes which need extra emphasis. One exclamation point was bad in Star! Two were worse, but audience escapes with virtue alry. In Chekhov, comedy Spanish punctuation largely intact since director demanded them, in !Quei-Joe Mantello keeps the volmada! Now there are three ume low and the pace cunin Love! Valour! Compassion! ningly slow. After a gauche The viewer picks them out prelude cross-cutting converof his body like darts before gent car journeys, complete settling down to watch a with obligatory shot of an filmed play about Aids, old farmer on a tractor shakdeath and bearing up. ing his head as one gay road-Terrence McNally's off- ster speeds by, we slip like Broadway ensemble piece skinny-dippers into the cool, doesn't need the strident refreshing one-liners. And title, even if the stridency is there is plenty of that (skinny-dipping): caveat Aunt

McNally, who wrote The Ritz and Frankie And lakeside New England dacha Johnny, has a talent for choreographing busy casts and letting each member have his stand-out solos. His pher", lives in the rambling comic skills, though, spend much of their time apologisfriend (Justin Kirk). To it ing for his excess pathos. This play is steeped in comcome the supercilious munal self-pity, placing gay English composer and his characters in a ghetto no less oppressive for its voli-Latin hunk of a lover, the high-camp jester careless of tional air of privileged tragedy than previous ghettoes have been for being on the receiving end of bigotry and eved Jason Alexander of TV's Seinfeld') and finally the persecution.

There is wonderful comic Brit's angelic, also-dying dialogue - "Is there a British Any more artfully ravishequivalent for machismo?", ing pathos and we could expect the next visitor to be one of twins is asked: "No: oh, maybe Glenda Jackson" he replies - but it keeps all to music. Instead the behaving like a rescue cav-

and tragedy are in symbiosis: they do not operate as a checks-and-balances system. the blind boy's moment of passion with the hunk, the death of an offscreen loved one - the epigrams will follow close behind. For all gay people are clowns beneath the tears, at least in pieces like this, forever doomed to ensure that the Show Goes

The title town of the charmingly wheezy comedy Palookaville is on no map of New Jersey. It is the one-way ticket dystopia mentioned in Marlon Brando's "Coulda bin a contender" mumblings in On The Waterfront. No one comes back from there, least of all Sid (William Forsythe), Russ (Vincent Gallo) and Jerry (Adam Trese), three no-hopers whose flirtation with crime begins with a burgled pastry shop - they broke in thinking it was a jeweller's - and ends with two fiascos involving a bank and a security van.

A producer called Pasolini (Uberto), three source stories by Italo Calvino and a Fellini-ish score by Britain's 1997 Oscar-winner Rachel Port- exactly it is. Survival? Love?

LOVE! VALOUR! COMPASSION! Joe Mantello

PALOOKAVILLE Alan Taylor

BROKEN ENGLISH Gregor Nicholas

IDIOT BOX David Caesar

PORTRAITS CHINOIS Martine Dugowson

man tell us the tone: shambling neo-realism. But it is beautifully done. Sid is a love-bruised loner who lives with his dogs. Russ is an Italian firecracker experiencing early burn-out. And Jerry is a henpecked newlywed who has to apologise to the supermarket manager he punched for harassing (indeed for all but raping) his wife, just so that she can get her awful job back.

Everyone is distracted from the main business of life by not knowing what

director Taylor has an eye Zealand is a race war for glum colours, poignant waiting to happen, though cul-de-sac settings and vivid supporting characters: not are lining up for weapons. least Russ's Medusa-haired mother, who looks as if she test between two loud, adjawas once runner-up in an Anne Bancroft lookalike con- Maori, one Croat - in which test. When she breaks off a ethnic tensions splutter as family quarrel at the dinner table with a primal cry of "I'm gonna miss Wheel of Fortune," it is the most perfectly witty moment in the film. Life in New Jersey never gets any better than a good TV show. If it did, people would be up and away from New Jersey.

Broken English is another tragicomedy about waking up to find yourself in the pylon in his backyard whose wrong postal area of Life. symbolism needs no spelling This time it is Palookaville. New Zealand. The proud Also fierce, funny and Antipodean is Idiot Box, a Croatian father (Rade Sersort of "Beavis and Butt-bead do Australia" in live bedzija) rules with a rod of iron, or rather a free-swung baseball bat, over his two action. Ben Mendelsohn and wilful daughters. Both are of Jeremy Sims play the Sydmarriageable age though ney retards, two ebullient waitress Nina is not of mar-riageable disposition. When teenagers who swear, drink and talk dirty but can never she flings herself at the quite muster the will or the handsome young Maori chef nous to do anything. Such (Julian Arahanga), a battle as, for example, ask a girl of wills, cultures and conout, buy a television or rob a flicting male proprietorships bank.

Like Once Were Warriors,

Money? First-time feature the film suggests that New more races than we thought The funniest scene is a concent garden parties - one fiercely as the pig spitted by the ex-Yugoslavians. ("I'll show you what Turks did to our people," Dad is heard saying as he shoves the rod up the porker.) There is much deft comedy. laced with a little terror in every scene where Rade Serbedzija Careless of his death sentence: Jason Alexander as appears, an actor with a the high-camp jester in 'Love! Valour! Compassion!' frown like Mars, a beard like Zeus and a soaring power

tously than the film which everyone takes turns nating the manic with the meditative: the leads are excellent; and Graeme Blundell and Deborah Kennedy make a fine pair of maladroit detectives. "What does that tell you?" asks Blundell. stabbing the last coloured pin into a map showing a broad-spread robbery pattern. "They've got a fast

the week is Martine Dugow-It all ends in tears or son's Portraits Chinois: one worse, and more porten- of those French films in

car?" replies Kennedy.

deserves. Writer-director to love everyone else, across David Caesar excels at alter- a large social spectrum of Paris, and the audience needs a pocket calculator to keep track and miraculous intervention to care.

Helena Bonham Certer speaks French as Englishborn design assistant Ada. thus enabling her to exchange sub-Godardian dialogue with the non-dairy cream of modern French act ing. Faces from a hundred The must-miss movie of noted Euro-puddings pass be week is Martine Dugow-by, but the movie still tastes like something pre-cooked

Theatre/David Benedict

Austere affair

brol's 1968 film Les Biches, tie remains wrapped in a an overrated examination of a modern love-triangle made up of long, lingering looks, was set there in December. Marguerite Duras's Suzanna Andler, a similarly threesided affair, was written at the same time and has pre-

cisely the same location. Suzanna (Julie Christie) is costs FFr1m but her husband Jean is a millionaire. so why is she vacillating? For the first time in her life

she has taken a secret lover. Michel (Aden Gillett) has told her, "This is going to be an unimportant affair, not a grand passion," but seven dous revival of Pinter's love months later they are still stealing moments together Andler shares that play's and Suzanna finds herself at preoccupation with secrets some kind of crossroads. As and lies, but where Pinter the two of them admit (a brilliantly creates a forward shade implausibly) this is the first time they have ever ing a mysterious shared discussed their past, we realise what Duras is up to. In true existentialist fashion, her characters have lived solely for the present, but now they must face both past and future.

The moment Catherine Milliken's wistful woodwind thing. Every calibration of music threads its way through the silence at the opening of Lindy Davies's fully presented you never revival, you know exactly become engaged. what you are in for. Her suggestive chamber score has but in fact it's just a long an austere, desiccated feel. As the comedy act Trevor patience with her indecision and Simon would put it, "Mr Gloom is in the room". I'm sorry to say, mine had Duras, alas, is not famous for her jokes.

French version of an Anita chester.

hat is it with Brookner novel, but instead San Tropez in of wearing Jean Muir and winter? considering lost love over a Claude Cha- Rich Tea biscuit, Julie Chrisheavy, protective black coat. pacing and prowling around Johan Engel's stripped-back, darkly elegant set atmospherically lit by Nick Bea-

The undervalued Julie Legrand, looking for all the world like Meryl Streep reprising an Eve Arden role, considering renting an eight- puts in a sharp appearance bedroomed holiday home on as Jean's sometime lover the coast for a month. It and Gillett does what he can with the cipher-like Michel, but the play stands and falls on Suzanna.

> t was Lindy Davies who persuaded Christie to make her British stage debut in her trementriangle, Old Times. Suzanna momentum while unravellpast, Duras merely poses conflicting positions. Old Times capitalised on Christie's screen gift of being tantalisingly remote; but here, although her character is described as "unknowable". that is not quite the same feeling has clearly been plot-

It looks like a great part, one. By the interval, your is wearing thin; by the end,

It is all rather like a At the Minerva Studio. Chi-



Mr Gloom is in the room: Aden Gillett and Julie Christie in 'Suzanna Andler'

Drottningholm Festival/Andrew Clark

The first Euridice

to sources, you can't get much more original than the first surviving opera. Jacopo Peri's Euridice was performed in Florence in 1600 - seven years before Monteverdi presented his version of the Orpheus myth in Mantua. Euridice has just been revived at the Drottningholm court theatre near Stockholm, in a controversial production which tries to marry musical authenticity to an arty modern stag-

In recent summers, visitors to Drottningholm have been treated to the repertoire associated with its golden era at the end of the 18th century. The programming of operas commissioned or seen by Sweden's King Gustav III had an authenticity of its own matching period instruments affecting: emotional truthfuland original stage machin- ness and lyrical delicacy little theatre was intended. This year marks a change.

Per-Erik Ohrn, Drottningholm's new artistic director, has gone back to an earlier era, with two works offering contrasting approaches to an identical story. Euridice, the first surviving stage work to employ continuous music, follows the 16th century tradition of pastoral drama the aim of which was to diluted individual personalentertain while encouraging a few tears along the way. Next month Drottningholm will stage Luigi Rossi's flamboyant tragi-comedy L'Orfeo (1647), illustrating how far and fast opera developed in its first 50 years.

Peri is Credited with "inventing" opera. Before he came along, court entertain-

n our age of going back a leading light in a decade of looked sensational. Otherdramatic experiments at the wise, the sole prop was a Medici court, and Euridice stool. from which Orpheus marked its climax. But the work was too intimate to impress an audience eager for spectacle, and Florence reverted to what it knew and

liked best. To make the Orpheus myth acceptable for a Medici wedding celebration. Peri dropped the tragic ending and substituted a scene of Orpheus and Euridice are wise, the most striking feature for late-20th century

ears is Ottavio Rinuccini's libretto: it is a poetic masterpiece, repaying attention not just for the beauty of its language, but the way it invites music. Within the style of melancholy arioso, Peri's score could hardly be more scene, it suffers from one fatal flaw - unvaried pace.

r so it seemed at Drottningholm. Peder Freiij's featureless tunics bathed the cast in grey uniformity, broken only by Pluto's outrageous Father Christmas outfit. Karl ity by draping the action with robotic arm-gestures a la Bob Wilson, and the "choreography" was incorrigibly precious - exactly what the music is not.

There was one inspired coup de théatre: for the central scene in Hades, the pastoral flaps lining the stage ments took the form of a flame-red screens, while formance is of festival stan-

and his entourage held forth like moody teenagers.

And it was Joe, the schizophrenic adolescent from the television soap opera East-Enders, who kept coming to mind whenever Fredrik Strid's Orpheus was on stage. Boyish and glum, he was outshone by Jeannette Köhn's statuesque Euridice. infectious joy in which about whom my only complaint was that Peri gave her reunited on earth. Other- so little to sing. The big setpieces were all written for other voices - notably Christina Falk's eloquent Dafne and Rodrigo del Pozo's dignified Arcetro, Best of all was Stephen Varcoe's belland-fire Pluto, who sang as if he meant every word, without deviating from impeccable period manners.

Full marks, too, to Jakob Lindberg, pillar of our own ery to the works for which move hand in hand. But Royal College of Music and this faithfully preserved until the fifth and final editor of the score, for coaxing such a colourful plume of sound from his 13-piece orchestra. Leading the way with his own contributions on chitarrone, he underlined the harmonic adventurousness of Peri's music, as well as its gentle passion.

Despite my reservations about the staging, I felt nothing but pleasure to be back Duner's staging further at Drottningholm. The theatre itself is a maryel - not just for what you learn about how a court opera looked 200 years ago, but for the democratic way it works. With fulsome state support and sponsorship from Shell Sweden, Drottningholm is free of the snobbery that would attach to such an operation in the UK. Prices were withdrawn in favour of are affordable and the percommedia with spectacular Venus and Orpheus dard. That's "people's opera" musical interludes. Peri was descended on a cloud. It for you.

INTERNATIONAL

AMSTERDAM

EXHIBITIONS Van Gogh Museum Tel: 31-20-570 5200 Second of four summer exhibitions of drawings by Van Gogh. This time it is the turn of the works produced when the artist lived in Nuenen, 1883-1885. The exhibition is shown in two parts, with a changeover on Aug 18: to Oct 12

■ DROTTNINGHOLM

OPERA Drottningholms Slottsteater Tel: 46-8-4570600 Orfeo: Swedish premiere of Luigi Rossi's 1647 version of the legend of Orpheus. The producer is Jack Edwards, the musical directors Stephen Stubbs and Paul O'Dette. With the Drottningholm Theatre Ballet and Orchestra; Aug 2, 5

LONDON CONCERTS

BBC Proms, Royal Albert Hall Tel: 44-171-589 8212 BBC National Orchestra of Wales: conducted by Mark Wigglesworth. Programme includes David Sawer's the greatest happiness principle, Bartók's Piano Concerto No. 3 with pianist Stephen Hough, and Sibelius's Symphony No. 2 in D major, Jul 31

 BBC Symphony Orchestra: and Singers conducted by Leonard Slatkin in works by Mahler, and world premiere of Roger Reynolds' The Red Act Anas; Aug 4 Bournemouth Symphony

Orchestra: conducted by Yakov Kreizberg in works by Mozart, Komgold, Markevitch and Stravinsky. With violin soloist Gil Shaham; Aug 5

Jiří Bělohlávek: conducts the **BBC Symphony Orchestra and** Chorus in works by Brahms, Chopin and Schubert; Aug 1 Royal Scottish National Orchestra: performs works by Glinka, Prokofiev, Tchaikovsky. and the UK premiere of Giya Kancheli's Symphony No. 3. With violinist Tasmin Little and

Conducted by Alexander Lazarev: The Mecklenburgh Opera company: performs Mahagonny-Songspiel and The Seven Deadly Sins by Kurt Weill. The programme is completed by a selection of German cabaret songs; Aug 3

counter-tenor David James.

DANCE London Coliseum Tel: 44-171-632 8300

 The Kirov Ballet: Fokine Programme 1 - first of two programmes staged by Isabelle Fokine, the choreographer's granddaughter; Jul 31; Aug 1, 2 Romeo and Juliet: presented in the original version by Leonid Lavrovsky, set to Prokofiev's score; Aug 4, 5

SALZBURG Salzburg Festival Tel: 43-662-844501

CONCERTS Philharmonia Orchestra: conducted by Kent Nagano in works by Messiaen, Pintscher and Debussy; at the Felsenreitschules;

 Philharmonia Orchestra: conducted by Kent Nagano in works by Messiaen, Pintscher and Debussy; at the Felsenreitschule; Aug 1

 Philharmonia Orchestra: conducted by Bernard Haitink in works by Mahler; at the Grosses Festspielhaus: Aug 3, 4

OPERA

 Boris Godunov: by Mossorgski. Conducted by Valerie Gergiev in a staging by Herbert Wernicke, Samuel Ramey sings the title role. Cast also includes Philp Langridge. With the Vienna Philharmonic, the Konzertvereinigung Wiener Staatsopernchor and the Slowakischer Philharmonischer Chor Bratislava; at the Grosses estspielhaus; Aug 3 Die Zauberflöte: by Mozart. Christoph von Dohnányi conducts a new production by Achim Freyer. With the Vienna

Konzertvereinigung Wiener Staatsopernchor; at the Felsenreitscule; Aug 2

THEATRE Der Alpenkönig und der Menschenfeind: by Ferdinand Raimund, Revival of Peter Stein's production, with sets by Ferdinand Wögerbauer. With music by Wenzel Müller; at the Landestheater, Aug 1, 2, 3 Jedermann: by Hugo von Friedel's production, designed by Imre Vincze; at the Domplatz;

 Libussa: by Franz Grillparzer. New production directed by Peter Stein, with sets by Moidele Bickel. Libussa is played by Dörte Lyssewski; at the Perner-Insel; Aug 1, 2, 3, 5

SANTA FE **OPERA** Santa Fe Opera

Tel: 1-505-986 5900 Arabella: Janice Watson sings the title role of Strauss's opera, in a new production directed by John Cox. The conductor is John Crosby; Aug 1 Cosi Fan Tutte: Kenneth

Montgomery conducts Mozart's opera, sung in English, in a new production directed by Nicolette Molnar and designed by Bruno Schwengl; Aug 2, 5

La Traviata: Linda Brovsky directs this new production of Verdi's opera, set in the Parisian

demimonde. Christopher Larkin conducts; Aug 4 Semele: new production of

John Nelson and directed by John Copley. Elizabeth Futral sings the title role: Jul 31

Handel's opera, conducted by

■ SCHLESWIG-HOLSTEIN CONCERTS

Music Festival Tel: 49-431-567080 Musica ad Rhenum: in works by Bach and Handel; at St. olaikirche, Lüneburg on Jul 31 and at the Dom, Meldorf on

Aug 1

Philharmonie der Nationen: conducted by Justuz Frantz in works by Rossini, Mendelssohn, Respight and Verdi; at the Rinderstall, Haseldorf on Aug 5; at the Schloss, Kiel on Aug 6; at the Musik- und Kongresshalle, Lübeck on Aug 7 Tavemer Consort & Players:

conducted by Andrew Parrott in a programme including works by Bach; at St. Marien-Kirche, Lübeck on Aug 4 and at St. Michaelis Kirche, Hamburg on Aug 5; Aug 4, 5

M TANGLEWOOD CONCERTS

Tanglewood Festival Tel: 1-617-931 2000 Boston Symphony Orchestra: conducted by Seiji Ozawa in works by Beethoven and Berlioz. With plano soloist Arcadi Volodos and tenor John Aler, the Shed; Aug 1

 Boston Symphony Orchestra: conducted by Richard Westerfield in works by Lieberson,

Saint-Saëns and Rachmaninoff. With violin soloist Joshua Bell; the Shed; Aug 2

 Boston Symphony Orchestra: conducted by Seiii Ozawa in works by Barber and Mahler. With soprano Barbara Bonney; the Shed; Aug 3

 Boston Symphony Orchestra: and Tanglewood Music Center Orchestra conducted by Seiji Ozawa, Leon Fleisher, Keith Lockhart and John Williams in a programme which includes Tchaikovsky's 1812 overture; the Shed; Aug 5

VERONA **OPERA**

Arena di Verona Tel: 39-45-800 5151 Aida: by Verdi. Conducted by Nello Santi in a staging by Gianfranco de Bosio, revived by Susy Attendoli. Casts vary; on Aug 1, 10 & 15 Maria Guleghina sings the title role Madama Butterfly: by Puccini. New production. Conducted by

Angelo Campori, with designs by Beni Montresor, Aug 2

WASHINGTON

CONCERTS Wolf Trap Tel: 1-703-218 6500 National Symphony Orchestra: conducted by Zdenek Macal in a programme of works by Tchalkovsky; Aug 1 National Symphony Orchestra: conducted by Zdenek Macal in

Verdi's Requiem, with the Choral Arts Society of Washington:

WORLD SERVICE BBC for Europe can be received in western Europe on medium wave 648 kHZ (463m)

EUROPEAN CABLE AND SATELLITE **BUSINESS TV** (Central European Time)

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until 15.00 of European business and the financial markets

Financial Times Business Tonight

CNBC:

08.30 Squawk Box

10.00 European Money Wheel

Financial Times Business Tonight

night ago at the Nato sum-

key - reached with US

encouragement - to eschew

the use or threat of force has

transformed the atmosphere

between two nominal allies,

which only last year came to

his unpredictable predeces-

sor, Andreas Papandreou.

Mr Simitis looks increas-

founder of the governing

Panhellenic Socialist Move-

ment (Pasok). Papandreou

was always quick to exploit

Greek insecurity about its

larger and historically domi-

political structures in recent

decades largely reflected

defensive attitudes born of

tionist mentality." Mr Simi-

tis says in an interview,

obliquely criticising his pre-

To be fair. Papandreou did

once try for a rapproche-

ment with Turkey when he

established a personal rap-

port with the late President

Turgut Ozai during the

world economic forum at

occasion the much-vaunted

tant," he says, intervening

in English to correct the

Oxford-trained economic

adviser summoned to trans-

late. And that, he explains,

is why Greece is proceeding

"safely not quickly" with the

next step in the reconcilia-

tion process to be taken

under European Union aus-

pices by a bilateral team of

experts. "I want a result, not

just discussions that will end

up, as in the past, in dis-

agreement," he adds.

tion proved short-lived.

to repeat this time.

an isolationist and protec-

nant Turkish neighbour. "Our economic, social and

The agreement with Tur-

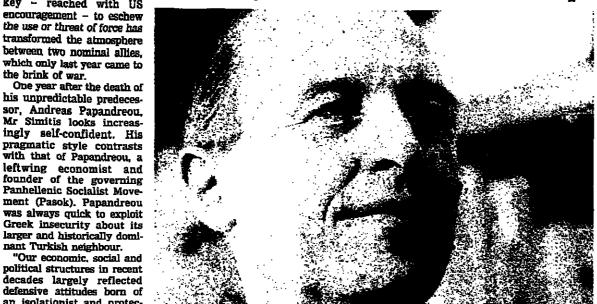
mit in Madrid.

the brink of war.

COMMENT & ANALYSIS

Thaw pierces the "Slowly but surely" could be the motto of Mr Costas Simitis, Greece's socialist prime minister. This applies equally to his modernising Aegean chill of the Greek economy as to his building on the groundbreaking agreement reached with President Suleyman Demirel of Turkey a fort-

Greece's premier wants better relations with Turkey, say Edward Mortimer and Kerin Hope



Costas Simitis: 'In Greek-Turkish discussion every word is important

EU members.

Greece and Turkey have been at odds for years over sovereignty and economic rights in the Aegean waters surrounding hundreds of Greek islands, some of which lie only a few miles off the Turkish coast. The most contentious issue con-Davos in 1988. But on that cerns the continental shelf, which is believed to contain valuable oil deposits.

"Davos spirit" of reconcilia-On the very day that Mr Mr Simitis believes that Simitis took office last year. Davos failed because too the two countries came close much was attempted too to fighting over lmia, an quickly. Insufficient attenuninhabited rock in the tion was paid to detail: a south-eastern Aegean. It mistake he is determined not took the intervention of Mr Richard Holbrooke, the top "In Greek-Turkish discus-US troubleshooter, to avert a sion every word is impormilitary clash.

As a result, Greece is still blocking an Ecu375m (£244m) financial package promised to Turkey under its customs union agreement with the EU. Mr Simitis insists that, before a dialogue. Turkey must either agree that it does not dispute Greek territory anywhere in the Aegean, or submit any outstanding claims to the World Court.

He also took a firm line on Cyprus, an issue not men-

tioned in the Madrid declaration although it stirs more feeling in Greece and Turkey than any other bilateral problem. Turkey, which sent troops to the island in 1974 secure a separate enclave for the Turkish Cypriots, does not recognise the Greek administration in southern Cyprus as a legitimate government. But Greece is energetically sponsoring that government's application for inclusion in the next wave of

Separate UN-sponsored island's Greek and Turkish communities took a step forward when their leaders met in upstate New York earlier this month. But that process could be "rendered useless" by the EU's intention to week by Mr Rauf Denktash, the Turkish Cypriot leader. and Mr Bülent Ecevit, Turkey's deputy prime minister. Mr Simitls insists the

tions there might be from

the Turkish side". Efforts to solve the political problem will continue in parallel. The accession procedure will take years "and we shouldn't hasten to determine now what should happen then," he says But he refuses to rule out

the possibility that Greece would veto other candidates for membership in an enlarged EU if, in the end, its partners refused to permit the entry of a stilldivided Cyprus. "Greece will use all means that are on negotiations between the offer within the framework of the European Union to achieve what it considers to be right," he says.

More pressing problems confront Mr Simitis at home, where he expects the coming winter to bring a renewal of open accession talks with widespread social protests as Cyprus early next year, he pushes ahead with to benefit low-income penaccording to a tough joint attempts to bring Greece's statement issued earlier this economy in line with European competitors.

Mr Simitis has given priority to meeting the Maastricht convergence criteria for eventual membership of accession procedure will go the proposed single Euroahead "no matter what reac- pean currency. He knows that better relations with

Turkey would help, by enabling Greece to cut its inflated defence budget and encouraging foreign invest-

But he fears that any hasty move in that direction could provoke a revival of nationalist passions at a time when he already faces entrenched opposition from powerful interest groups opposed to economic reform.

Notwithstanding the prime minister's efforts, Greece is the only EU member that will be unable to reach any of the Maastricht targets for joining the euro by the end of this year. It hopes to qualify for a possible second wave of entrants by hitting the targets next

year or in 1999. Inflation has fallen but, at an annual 5.5 per cent, is still more than three times the EU average. While Greece is on track to reduce the budget deficit this year from 7.4 per cent to 4.2 per cent of gross domestic product, the Maastricht 3 per cent target is still some way

Stung by the charge that he has so far failed to slim down the public sector, which is seen as his party's main power base, Mr Simitis claims to have made important strides in liberalising Greece's telecoms and energy markets. But he admits there is much still to be done, not least the restructuring of Olympic Airways, the troubled state carrier which has failed to implement reforms agreed more than two years ago with the European Commis-

There is nothing flamboyant or even charismatic about Mr Simitis. Yet be has something in common with Mr Tony Blair, the UK prime minister, in that he has reshaped an old-fashioned socialist party by pushing through policies that would have been bitterly opposed just a few years ago. But Mr Simitis emphasises that "in other respects we are closer to the French Socialists, for example in taking measures signers and the unemploved".

Either way, it is clear that Mr Simitis wants to leave behind Greece's third world socialist tradition of the past. Instead he wants to be judged by the standards of western European social

LETTERS TO THE EDITOR

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Gold has lost some glister in the modern world of central banks

From Mr Luchoin Fischer. Sir, The FT Guide to Gold (July 21), though informative, does not seem to be in tune with the times. In view of the recent central bank gold disposals alluded to by Robert Chote, his ensuing tatement that most central bankers are still reluctant to dispose of an asset considered a hedge against inflation (what inflation?) and not someone else's liability sounds like playing Glenn Miller to Techno-eager kids. As he correctly points out,

by having sold more than

two-thirds of its gold

reserves Australia's Reserve Bank acted like an ordinary investor. And so are the other central banks which are modernising the management of their reserve portfolio, including those of the 'really big stockpilers".

A prime example is the recent Swiss National Bank law reform, geared to increase asset revenue by revaluing gold reserves closer to market price, allowing a higher proportion of foreign exchange reserves, the use of derivatives in their management and reducing gold coverage of

circulating money from 45 to 25 per cent (a revision bearing no link to the funding of the Solidarity Foundation). Similarly, Mr Chote omits mention of the recent controversy in Germany over the proposed sale of part of its gold reserves to meet the

Maastricht deficit criterion.

Perhaps it won't be too far-

fetched to expect some mega nails in gold's coffin in the not-too-distant future. Ludwin Fischer, 9, place Grenus,

CH 1201 Geneva.

Switzerland

Threat to gas group's ability to plan

From Mr David Varney. Sir. Mrs Margaret Beckett. the UK secretary of state for trade and industry, has said that the Department of Trade and Industry's forthcoming review of the regulation of the utilities industries will be guided by the principles of transparency, consistency and predictability, with enhanced accountability. Rightly, she observed that predictability is required for the "smooth operation of the industries themselves and to allow a sound basis for long-term

planning". The consultation process of the price control for Transco, BG's pipeline subsidiary, is a timely reminder of the difficulties which the regulated utilities are

encountering in achieving predictable outcomes from the regulatory process. On June 18, the results of the Monopolies and Mergers Commission's lengthy inquiry into future price regulation of Transco were pub-

The MMC's recommendations were accepted by BG and Ofgas as the basis for a settlement - the "umpire's decision" - after both sides had fully assimilated the MMC's report.

Yet, in the subsequent consultation paper on the draft licence conditions giving effect to this settlement, Ofgas proposes to depart fundamentally from the MMC's recommendation in a way which would transform the incentive-based charac-

ter of these recommends. tions, Significantly, Ofgas itself had previously strongly rejected the modification it now proposes.

The new government inherits regulatory arrangements for the utility industries in which some regulators are required by statute to implement MMC recommendations in full while others retain discretion. We look forward to this source of inconsistency and unpredictability being addressed in the DTI review.

David Varney. chief executive, 100 Thames Valley Park Reading.

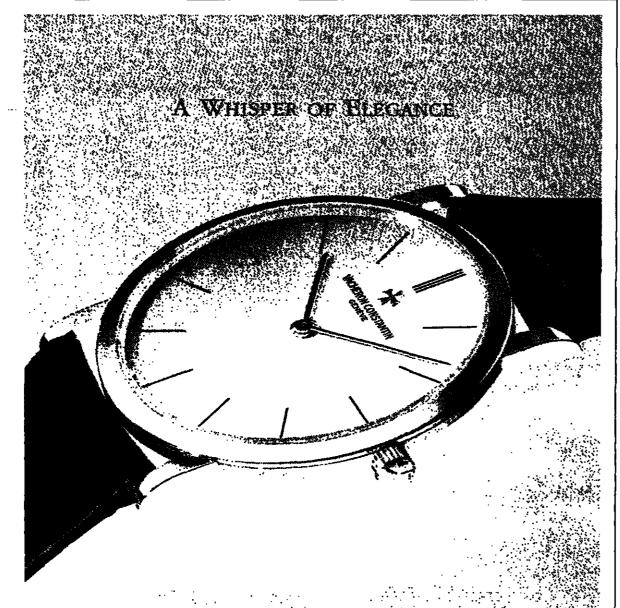
Berkshire RG6 1PT, UK

A very unlikely, and unpalatable, meal

Sir, In the article by Simon Kuper and Andrew Fisher, Germany seems unlikely to halt D-Mark's slide" (July 21), they quote a Mr Brian Marber as claiming that, if the German currency's correction was "undoubtedly at an end", as Mr Hans Tiet-

meyer. Bundeshank president, but it. he. Mr Marber. would eat Mr Tietmeyer's lederhosen. May I point out that the Bundesbank chief, being neither Bavarian nor Austrian, is highly unlikely to be wearing lederhosen. It would be more useful if Angle-Saxon analysts would delve further into German sartorial habits before making unpalatable proposals.

Peter Seilern. Seilern Investment Broughton House 6-8 Sackville Street. London W1X 1DD, UK



Barely 1.64 mm thick, a hand-wound movement beats unerringly within a yellow or white gold case's purebred slimness. Les Essentielles, by Vacheron Constantin. Discretion in space and time.



Called to book

Travel agents face competition from online services and interactive television, says Scheherazade Daneshkhu

In 1841, Thomas Cook, pioneer of the package holiday, organised an outing by train from Leicester to Loughborough for support-ers of temperance in Victorian England. He advertised the trip, despatched invita-tions and sold the tickets. Today Thomas Cook, the German-owned travel agency which bears his name, faces a technological revolution which threatens to sweep it and many other companies away. The growth of online booking services and the development of interactive television could, at least theoretically, eliminate the role of the travel agent altogether. "Users can bypass the travel agent and book direct from suppliers," says Mr Barrie Barnes of Philips Electronics, which last year started manufacturing settop boxes enabling users to access the internet via their

Datamonitor, the management consultancy, forecasts that the value of travel booked online in the UK alone will increase from less than £1m (\$1.67m) in 1997 to more than £1bn within five years. Once new technology is established it could quickly drive a fifth of travel agents out of business, according to the Geneva-based International Labour

Unlike the banking and insurance industries, direct sales in the holiday industry have been slow to take off. But, although few family holidays are booked over the phone or through the internet, agents acknowledge this is likely to change swiftly once interactive television is fully developed.

Customers will then be able to watch videos of destinations, ask questions about the place and make bookings using their remote control: all without having to stir from their armchair. But agents say they will not become helpless victims of the transformation. The

internet will change the way they do business, they admit, but it will not make them redundant. Online technology, they

say, will rarely be used for anything more complicated than booking an airline or



Before the internet: package holiday founder Thomas Cook (left) and an early brochure

train ticket. "The vast majority of customers [only] want to search [on the internet]," says Mr Mark McCafferty, managing director of Thomas Cook travel. "And as soon as you are searching there is potential for the travel agent" to provide added-value services.

Airtours, the largest inter-national package holiday group, agrees. The internet could replace holiday brochures, but customers will still want to talk directly to an agent when it comes to choosing and booking a holiday, it argues.

That does not mean travel agents will not have to adapt. Going Places, the travel agency arm of Airtours, has just doubled its

Travel agents are vulnerable to elimination once contact is established

between suppliers such as airlines and hotels - and the customer

telesales division in preparation for what it believes will be an explosion of direct

Thomas Cook is hedging its bets by selling holidays in its shops and over the telephone. It also plans to sell holidays and foreign exchange on its internet site within the next two months. Providing a variety of distri-bution channels is expensive in the sbort term, but travel agents believe they cannot afford to do otherwise.

Like all intermediaries, travel agents are vulnerable to elimination once direct contact is established between suppliers - such as airlines and hotels - and the customer. Airlines, in particular, are looking for ways to cut distribution costs. In the US they have moved strongly to reduce the commission they pay to travel agents, a trend that is spreading to Europe. The evidence from the US shows that small agents are particularly vulnerable.

"Competition from new entrants in the travel industry such as network and software companies, the rise of online systems designed to eliminate the traditional travel agent's booking process make it especially difficult to thrive," says Mr Hal Rosenbluth International,

the Philadelphia-based busi-

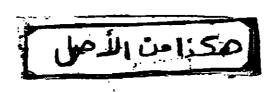
ness travel agent. "However. where others see disaster,

Businesses travel agents hit by the rise of online bookings, have shown them selves adept at reinventing themselves as "travel managers". Instead of selling tickets and making travel arrangements, they are charging consultancy fees for reducing the amount client companies spend on

Carlson-Wagonlit, the joint venture between Carlson Travel in the US and Accor in France, says that it relied entirely on commission for its income 10 years ago; commission now accounts for

less than half. This trend could spread to the leisure market. Mr Ian Reynolds, chief executive of the Association of British Travel Agents, believes that new technology gives agents the opportunity to charge for specialised advice and tailor-made holidays. But the overall cost to the holidaymaker would not necessarily he higher, if airlines reduced fares as commissions paid to

agents come down. "The way holidays are sold will change more in the next five years than in the past 15," says Mr Richard Car-Rosenbluth, president of rick, marketing director of Airtours. "The industry is in



COMMENT & ANALYSIS

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FINANCIAL TIMES

Number One Southwark Bridge, London SE1 9HL Tel: +44 171-873 3000 Telex: 922186 Fax: +44 171-407 5700 Thursday July 24 1997

Asean's mid-

life crisis

Leaders of the Association of South East Asian Nations had planned their Kuala Lumpur summit, which opens today, as a celebration of the organisation's achievements since it was formed 30 years ago. Instead, the event seems set to highlight the growing dilemmas confronting the grouping's future.

These have been given promi-nence by the last-minute decision to delay Cambodia's membership of Asean, after its recent coup. As well as being an embarrassing setback for the grouping's ambitions to act as a unifying force throughout the region, the incident points to important longer-term lessons. The most important is that it has been too preoccupied with broadening membership, when deepening integration should be

Such an approach would face many political sensitivities and practical problems – not least, Even before the coup, the

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decision to admit Cambodia, along with Burma and Laos. looked poorly thought through. No coherent case was made for why the countries had to join so soon; nor, apparently, was much attention paid to the political and economic difficulties their membership would pose. At the least, embracing some of Asia's poorest and most backward countries risks diverting Asean from its key objective of economic liberalisation. That events took this course

may reflect Asean's mutually deferential approach to decision-making. The system is said leaders, or of stability in the

the grouping's members. But in this case, consensus seems to have been achieved at the expense of clarity of purpose and vigorous debate about the issues. That is a weakness which a grouping with such an important role in regional security and stability can ill afford.

The Cambodia debacle may stimulate fresh thinking. Indeed, the decision to delay the country's membership is a departure from the grouping's long-standing principle of nonintervention in neighbours' domestic affairs. Some influential voices are now calling for greater action to promote political and institutional reforms in the region.

how to square it with Asean's embrace of Burma's repressive regime. Nonetheless, it recognises a broader imperative: if Asean is to continue to develop, its members need to move beyond loose co-operation and unite behind more sharply-fo cused common goals. Their first priority should be

to define a collective role in regional security and to keep up the pressure for economic liber alisation. That will not be easy. But without closer integration Asean's effectiveness and credibility risk falling prey to grow ing internal strains. That would not be in the interests of its

Dearing

future of higher education is a repayment will not start until major piece of work - as large in scope and with implications at least as profound as those of the Robbins report which the open government which helped trigger the first great ministers claim to wish to expansion in UK higher education more than 30 years ago. It contains much to recom-

mend it. Its central recommen-ment-yesterday did not address dation that students will have some of the key issues Sir Ron's to pay towards their tuition has become an inevitability in a funding system - its overall world of larger student num- impact on the public finances, bers. Its call for the resumption of growth in higher education, in terms of government borrowbut with much of that growth ing, and whether Sir Ron is concentrated helow degree right to judge that securing prilevel, looks to be the right course. And its call for stan- provide value for money. dards still to be maintained as numbers rise has got to be cor-

The government has accepted the broad thrust of the report, but it has come up with its own scheme for how students should not least the further cuts in unit contribute more to the costs of costs per student which are their education. How far the government's

solution is the right one, however, is at present difficult to judge. Where the Dearing report provides pages of analysis of the various options it canvassed, the government has provided none, as yet, for its plans,

Universities, students, parents and employers are left reliant on background briefings that universities should see about an extra £1bn a year from the gov- to be made.

Sir Ron Dearing's report on the ernment's proposals, and that

This is hardly an exercise in

espouse. And while providing the bare bones of the scheme it wishes to adopt, the governreport raises about any new how the loans are to be treated vate finance for them would not In addition, while pronounce

ing immediately on one of the longer-term decisions needed, yesterday's statement did nothing to address the short-term issues that the universities face: built into the government's spending plans. As things stand. the universities calculate this will leave them with a £3bn deficit by 2000.

Given the timetable it plans to follow - an autumn white paper succeeded by rapid legislation to get a new system in place for September next year the government should provide more details rapidly of what it plans to allow a full assessment

Europe's pyrrhic victory

Small concessions do not detract from Boeing's market domination, argues Michael Skapinker

tant meeting, you find the road blocked by a threatening driver, do you jump out of the car, trade blows and arrive late and bloodied for your appointment? Or do you give way and, pride slightly wounded, reach your destination on time?

Boeing of the US yesterday decided to give way to Mr Karel Van Miert, the European Union competition commissioner. The US airline made several concessions, including agreeing to remove the exclusivity provisions from 20-year supply contracts with three US airlines - American, Continental and Delta.

Boeing did so because it wanted to avoid disruption to the most important meeting in its 81year history. Tomorrow, Boeing shareholders meet in Seattle to approve the company's takeover of McDonnell Douglas, which will create the world's biggest aerospace and defence company.

Mr Van Miert's victory has

been hailed by fellow European commissioners. The concessions Boeing has made could have some detrimental effects on the future of its business. But these will be small compared with the benefits of the takeover, which will create a \$48bn (£29bn) turnover group, with 200,000 employees and a towering presence in civil aircraft and military markets worldwide.

The many European suppliers to Boeing, which include Smiths Industries of the UK, Snecma of France and Alenia of Italy, will be relieved that a damaging trade war has been averted. But Boeing's concessions will

do little to improve the competitive position of Europe's fragmented defence sector or of Airbus Industrie, the European consortium. Nor will Boeing's concessions limit its freedom of action. Its agreement to maintain McDonnell Douglas's commercial aircraft business as a separate legal entity for 10 years will not hamper Boeing should it decide to stop manufacturing Douglas aircraft, leaving it free to persuade airlines to buy its products Boeing's undertaking to the

Commission not to interfere with and other commercial aircraft argue that as a single company. manufacturers is little more than Airbus will be able to make decia promise of good behaviour. We're saying we won't beat our wives, and, by the way, we haven't beaten our wives and we didn't intend to beat our wives," says Mr Richard Albrecht, Boeing's executive vice-president. Boeing's agreement to drop the

years. Mr Robert Crandall, chairman of American Airlines, is due firm. to retire by 2001. His successor might decide to buy aircraft from and the EU has won its small Airbus. Delta is also in the midst victory, the European industry of change, with Mr Ronald Allen, needs to address itself to larger its chief executive, set to leave at tasks. Above all it must create the end of this month.

But while Airbus could win orders from the three airlines in just in the negotiating chambers future years, it will be difficult. of Brussels.

f, on the way to an impor- The three carriers decided to buy from Boeing because it offered the widest range of aircraft at the lowest prices and because purchasing from a single supplier cuts maintenance and training Mr Gregory Brenneman, Conti-

nental's president, said his air-

line had also chosen Boeing because it offered better customer support than Airbus. It is comments such as these which should worry European Commissioners as they celebrate their humbling of Boeing and its supporters in the White House and the US Congress.

Boeing's takeover of McDonnell Douglas is one of several mergers in recent years which have consolidated the US industry, producing a handful of world-class Boeing's higgest US competitor, Lockheed Martin, itself the result

of a merger, announced earlier this month that it planned to buy Northrop Grumman for \$8.2bn. If the deal wins regulatory approval, the US will have three aerospace and defence giants Boeing, Lockheed Martin and Raytheon - compared with a

dozen large manufacturers at the

beginning of the decade.

By contrast, Europe's consolidation of its defence industry has barely started. Mr Manfred Bischoff, chief executive of Daimler-Benz Aerospace (Dasa) of Germany, points out that the US companies have the advantage of only having to deal with one government. Few EU governments are ready to see their arms industries disappear into a pan-European group.

Mr Bischoff argues that Europe

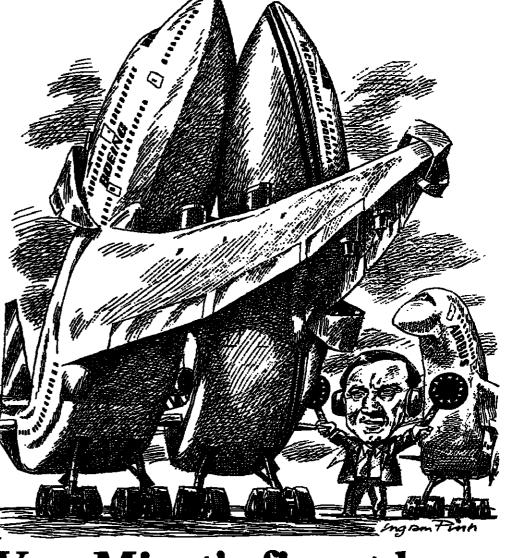
should concentrate on reforming Airbus, which could later form the basis of an aerospace and defence group big enough to compete with the Americans. But the reform of Airbus is not

proceeding smoothly. The four companies which own Airbus -Dasa, Aerospatiale of France, British Aerospace and Casa of Spain - agreed earlier this year to turn the consortium into a profit-making company. At present, it is a confederation of the Dasa and BAe, which have

relations between its suppliers been pressing hardest for change. sions more quickly and provide a better level of customer service. Aerospatiale, however, has been dragging its feet, arguing against having to hand its factories over to the Airbus management. Significantly, the French govern-

ment, led by President Jacques exclusivity clauses from the air- Chirac, was the most strident craft supply deals could have opponent of the Boeing-McDonsome effect over the next 20 nell Douglas merger and led the calls for Mr Van Miert to stand Now that the skirmish is over,

> companies that can challenge the US in the marketplace - and not



Van Miert's finest hour

The EU's competition commissioner is being credited with taking on the US, says Emma Tucker

hen Mr Karel dure. After lambasting elements became European competisioner in 1993 there were plenty who suspected that his socialist past would ill equip him for the battles that lay ahead. But with all the zeal of a con-

vert he has proved his critics wrong. In a crusade to enforce fair competition in the European Union, he has busted cartels, forced liberalisation upon closed sectors and taken a fairly tough line on government subsidies. Yesterday, came his apogee.

The last-minute climbdown by Boeing over its merger with McDonnell Douglas had Mr Van Miert hailed in Brussels as the little guy who took on the US giant – and won. "You have to hand it to him."

four partners, who make deci- says one Commission official. "He took them on and he won. He showed that the European Commission is a force to be reckoned with." Mr Van Miert has been credited

with placing the European Commission at the top of US news bulletins for the first time anyone can remember. "The Boeing case shows that we are just as serious as the US competition authorities, and some would say have done a better job," says one official_ But for all the glory of his vic-

tory over Boeing, Mr Van Miert's strategy of pushing the champion US aircraft manufacturer to the limit was risky. There were times when it looked as if he had miscalculated. He also faces criticism for hav-

ing tainted the credibility of the EU's Merger Regulation by publicly voicing his concerns about have been a confidential proce-

Miert of the merger on a tour of the US earlier this year, it was not long before politicians on both sides of the Atlantic were rushing forward with their views on the "This case has politicised the

Merger Regulation which is the

one bit of competition policy that should be kept in an iron cask sealed off from the politicians," says one Commission official. "It has undone a lot of the efforts that have been made over the last few years to give credibility to the Commission's handling of mergers, even if the result is not too bad." This politicisation could play

into the hands of supporters of an independent competition authority for Europe, along the lines of Germany's Bundeskartelamt. But Mr Van Miert's supporters defend his actions in the name of transparency. "He is a man who believes in

accountability and some of us do get nervous," says a Commission official, "But he believes in explaining to people what he is doing and why." Among those listening - and

was the French government, chief champion of Airbus Industrie. Some suspect Mr Van Miert of courting favour with Paris, tles over the restructuring of state-owned bank Credit Lyon- ness and Grand Metropolitan nais, the liberalisation of telecoms, energy and transport networks and subsidies to Air

the French is a "waste of time". according to one Commission official. "You can secure any number of victories for the the Boeing deal in what should French in competition and trade matters, but they are always

totally, and unrepentantly ungrateful," he says. Whatever Mr Van Miert's moti-

vation, there is no disguising his enthusiasm for a good punch-up. Some fear that, fresh from his Boeing triumph, he will turn his energies to other contentious cases: a prospect which bodes ill for companies such as British Airways, which is still awaiting clearance for its proposed alliance with American Airlines. "I was rather hoping he would

get a bop on the nose over this Boeing case," says one airline industry expert. "Now he will probably charge ahead and make unreasonable demands." It is also unclear how the fal-

lout from the Boeing case will affect relations between the EU and the US when it comes to cooperating on competition affairs. "We were prepared to address the merger on the basis of con-

cerns for customers, which is the traditional US approach to antitrust law," says Mr Richard Albrecht, Boeing's executive vice-president. "The approach by the European Merger Task Force seems to be much more concerned with the effect on competcontributing - to the argument itors." Some fear the Commission's

clear defence of Airbus will lead to reprisals. The US authorities also have to clear the BA-AA alliahead of potentially bruising bat- ance and are examining the planned merger between Guin-But the potential damage

should not be exaggerated. "This was such a hard case that to draw any general conclusions But trying to buy favours from from it is probably dangerous," says one competition lawyer in Brussels. "I think both parties are mature enough to realise that and to recognise that they have separates them."

Asset prices

Following the biannual span's warnings that stable Humphrey-Hawkins testimony growth and low inflation will before congress by Mr Alan not last indefinitely, leaving Greenspan, chairman of the US Federal Reserve, the Dow Jones Industrial Average again scaled new heights. Market confidence reflects what Mr Greenspan left out as much as what he said. He did not repeat his reference to "irrational exuberance", although the stock market has risen 25 per cent since he coined the phrase last December. Nor did he indicate that interest rates would rise next The Fed's job is to stabilise

the prices of goods and services in the US economy and minimise the variance in output. It is not Mr Greenspan's job to guide asset prices, particularly since the attempt to do so might destabilise the real economy. For this reason, last March Mr Greenspan ruled out an interest rate rise simply to prick the stock market bubble. Nevertheless, the chairman

will be concerned about the rising stock market. Asset prices can affect real activity, by altering the finances of firms and households and so affecting their investment and consumption decisions. In the upturn, this can lead to excess demand. In a downturn, it can exacerbate the contraction. Consequently, asset prices are a leading indicator of inflation.

Notwithstanding Mr Green-

interest rates unchanged for now seems right, since consumer price inflation remains subdued at present. There is also no sign that high asset prices are filtering through into excessive inflationary pressure. Nevertheless, it would be a mistake to be too complacent about asset prices. Japanese

experience shows that an economy may be destabilised even if consumer price measures appear well under control. Similarly, a sharp stock market correction could cause problems for the US economy. Yet Mr Greenspan cannot do

much to deal with these risks. so long as what the Fed targets behaves so well. It forecasts economic growth at between 3 and 3% per cent this year, but expects it to fall to 2-21/4 per cent next year. Given this benign prospect, Mr Greenspan's only option is to continue to warn that the next movement of interest rates is more likely to be up than down.

Should the equity market reverse dramatically, he would have to act vigorously to provide liquidity in the financial markets, as in 1987. At present such an event seems the biggest threat to the enviable record of stable growth that the US economy has achieved under Mr Greenspan's guidance.

Karel gains altitude After Boeing, it seems the sky's the limit for European

Union competition chief Karel van Mieri. The Belgian commissioner's tenacious campaign against the world's number one aerospace . manufacturer has won him powerful friends - especially in Paris, where President Chirac saw the Boeing-McDonnell Douglas merger as a frontal and on Airbus Industrie. Now he's being talked of in Brussels as a plausible successor to Jacques Santer as European Commission president. Jockeying for the top job in

Brussels will begin shortly, even though Santer still has two and a half years to serve - it's likely to be dragged into the horse-trading next year surrounding the appointment of the president of the proposed Ruropean central bank. Any shortlist will probably include Felipe Gonzalez, former

Spanish prime minister, Peter Sutherland, former Irish Commissioner, head of Gatt and top man at Goldman Sachs in London: Giuliano Amato, former Italian prime minister, and Volker Rube, the ambitious German defence minister, assuming be doesn't succeed Chancellor Kohl.

The second secon

Three years ago, fellow-Belgian Jean-Luc but the spectacular performance financing ended this week with Dehaene, the favoured Franco-German candidate saw his bid to succeed Jacques Delors torpedoed by a premature leak to the press and a British Presiding genius

OBSERVER

government veto. Van Miert was relieved: a Dehaene succession would have pushed him out of his job as Belgium's sole EU commissioner. And he wouldn't have entered Brussels folklore as the man who made Boging blink. Screen star

■ IBM-watchers think Big

Blue's latest management reshuffle contains a strong hint about who might succeed Louis Gersmer as chairman and chief executive - although a change of boss might be some way off, as Gerstner's fost 55. The shake-up moves Samuel

Palmisano, head of the PC business, up to senior vice president in charge of a new division that includes the PC operations, the consumer division, the network computer business and a joint venture with Japan's Toshiba that makes flat-panel liquid crystal displays. At 44, he'll be IBM's youngest , top executive.

Palmisano, who joined IBM in 1973, isn't one of the group of executives who've followed Gerstner from American Express ■ Barclays Bank's ill-fated through R.IR-Nabisco to IBM, venture into Greek ship

of IBM's services business is believed to have caught the

Are Benny Gaon's days as chief executive at Israel's sprawling Koor group numbered? This week's move by the Claridge Group to become a 20 per cent shareholder looks ominous for the ebullient Gaon. whose surname means genius in

Hebrew. It's understood that Claridge – controlled by Canadian Jewish businessman Charles Bronfman - wants eventually to gain full control. Claridge is taking strategic advice from hot law firm Herzog, Fox, Neeman. In a recent book.

Jaacov Neeman - recently elevated to be Israel's finance minister. Herzog, Fox, Neeman acted for the consortium of foreign bankers which wrestled with Gaon over the refinancing of Koor when the group was all but bust at the end of the 1980s. Gaon survived that episode. But it seems unlikely he will figure in Claridge's plans.

Gaon was less than flattering

about the firm's sentor partner

On the rocks

the transfer of its shrunken loan portfolio to Midland Bank, a more conservative UK player on the Phaeus waterfront. But Nikos Koros, the shipowner who

talked Barclays into backing his disastrous shipbuilding venture in Romania in the early 1990s, is still in business – just. Koros had the bright idea of ordering eight chemical tankers from the state-owned Tulcea yard on the Black Sea. Barclays

handed over \$120m in loans – about 20 per cent of its total portfolio – to Blue Flag Navigation, the Kores outfit. But the company couldn't persuade the Tulcea workers to get on with the job. Four years

past the delivery date, just two of the eight tankers seem likely to be completed. Koros's 20-ship fleet has now dwindled to half-a-dozen elderly vessels which are trading under new names and no longer fly the Blue Flag banner.

High value ■ Soaraway Dutch blue-chip

stock prices seem to have inspired pilots of the national flag carrier KLM. They've offered to cut their pay demands in return for shares. That way they could join the Dutch business-class high-flyers who've seen their guilders multiply in Amsterdam's buil market.

Financial Times 100 years ago

Insurance Notes In big type and in small,

beading conspicuous advertisements and coming quietly in at the tail-end of minor ones, in season and out of season, the Equitable of the United States is constantly shouting the statement that it is the "Strongest Life Office in the World." We are tired of it. The claim is a piece of pure "bunkum" which would be laughed at if it were made by a small concern; and we see no reason why the absurdity should be allowed to pass merely because it is uttered by a big one. We have no unfriendly feeling to the Equitable, as our columns have borne witness . . We hope that this objectionable and grotesque statement will now be withdrawn from use.

50 years ago Shipyards At Busiest

Work in hand at British shipyards is running at the highest level since March. 1922, and actual output - that is, completed vessels - is now expected to reach 1,000,000 tons in 1947. The industry's own "tarvet" was set at 1,500,000 tons but this was based on adequate supplies of steel, timber and other materials. The new output estimate of 1,000,000 tons is based on the assumption that there will be no fuel crisis or other serious development

FINANCIAL TIMES

Thursday July 24 1997



Polly the cloned lamb can deliver human proteins

sor who made cloning a global household word.

Polly is a clone too. But she has an added ingredient: a

That gene will produce a human protein in Polly's milk. The protein can be extracted and given to patients who lack

The company behind Polly, Edinburgh's PPL Therapeutics, plans to produce a flock of Pollys, making proteins for a range of diseases from haemophilia to osteoporosis.

Polly is the first transgenic sheep created using cloning technology and represents a crucial step in the commercialisation of the technique. This is a realisation of our

Boeing plan

for merger

approved

Continued from Page 1

Commercial application Polly is a lamb with an eye for the market. Only two weeks old, she has already gambolled of technique is nearer

> vision to produce instant flocks or herd which express involves adding a human gene high concentrations of valu- to the nucleus, which contains able therapeutic proteins very .quickly," said Dr Alan Colman, PPL's research director. Transgenic sheep have existed for several years: the

first was Tracy in 1992. But the technology behind them meant that only in December 1996 did the protein in Tracy-like sheen enter clinical trials, for treating cystic fibrosis. The cloning method guarantees that every lamb will be

Polly-like sheep could enter

trials as early as 1999.

Polly earned her name because she is of the Poll Dorset breed, although her surrogate mother is a Scottish female and allows for a flock She already has two sisters, to be created in a single generbut scientists at PPL and the ation. Proteins produced in publicly-funded Roslin Insti-

the research is to refine the addition of the genes so that they are placed more accurately within the nucleus. This should increase the

human gene. The next step in

amount of protein in the milk The cloning technique and help the technique to be applied to cows, which produce much more milk than tists to replace rather than just

add genes. This is vital to a

removed. The resulting plan to farm pigs whose internal organs can be transplanted Roslin and PPL scientists need to remove the genes that make proteins that make the

organ look pig-like to the human immune system. Unless the organ look like a human's, the immune system will reject it and the patient will relapse. Such "xenotransplantation" is still several tain that they also have the years away.

Paradigm paradise Have markets misread Mr Alan Eurotrack 200 index 2732.2 (+55,5)

Greenspan? His Humphrey Hawkins testimony to Congress has been widely interpreted by investors as a reason to pile into shares and bonds. Certainly he was in a more benign mood than last December when he warned about the dangers of "irrational exuberance". This time he said financial markets were merely "buoyant" - despite Wall Street's near 30 per cent rise in the

Yet it was Mr Greenspan's enthusiastic discussion of the fnew peradigm" economy – which assum US productivity growth has shifted on to a higher trend - that really sparked markets. He remained exanisitely agnostic about the achieved, but said enough to suggest he thought it credible. The danger, of course, is that Mr Greenspan's frank discussion will be nisunderstood. Instead of noting his caveats, investors may conclude that economic nirvana has arrived and take it as a screaming buy signal. That would be ironic - arguably the best reason for higher rates is the need to take the steam out of the markets.

On inflation grounds alone, there is little case for a policy tightening at present. But the possibility of an early move should not be wholly discounted. Only yesterday one of Mr Greenspan's colleagues was warning of the need to be pre-emp-tive. Another hinted heavily that the economy is already in inflation overshoot territory. Mr Greenspan's comments do not constitute a licence for complacency.

German banks .

Germany's grey-suited banker has become investors' latest pin-up. Since the merger of two Bavarian banks was announced three days ago, German bank shares have umped by 20 per cent, leaving even surging stock market trailing.

This enthusiasm is justified - up to a point. The merger proves radical deals are possible in Germany. And the elegant structure, involving the tax-free use of a cross-shareholding, can probably be applied sewhere in the sector. Short term, however, it is difficult to envisage a merger between any of the three big Frankfurt banks - Deutsche, Dresdner and Commerzbank. Mr Rolf Breuer, Deutsche's chairman, made it clear yesterday that he would rather buy in France than at home. And consolidation among public

THE LEX COLUMN

US markets

sector Landesbanken and Sparkas sen - 70 per cent of the market - is

likely to be even slower. Meanwhile, share prices seem have lost touch with fundamentals. Profitability is improving: Deutsche's half-year net income ed 27 per cent. But a third of jump in the shares. its profits now comes from investper cent return on equity in 1997, yet they trade at 2.3 times book value. In the UK, the average price to book ratio is 3.3 times, but the banks are more than twice as profitable. And in France, where return on equity is 11 per cent, the price to book ratio is only 1.8 times. German banks look overvalued.

Sterling's strength and obstacles to returning large sums of capital to shareholders may be the immediate causes of Reuters' misery. But the 'it should also consider acquisitions. longer-term doubts centre on whether the group can recapture its status as a high-growth stock. In share, BOC has virtually no presparticular, can Reuters turn the ence in continental Europe. Swethreat posed by the internet to its den's Aga would be a good fit, but

company sounded fairly positive on this score. The use of low-cost internet-type technology gives it the capacity to break out of the dealing room. In the financial sector, this means distributing variations of its existing data over corporate intranets to employees who could not previously justify the cost of a dedicated Reuters terminal. It also means selling beyond the financial sector. In an early sign that this is working, Reuters' revenue from

cent in the first half - albeit from a

The snag, of course, is that the further Reuters steps beyond its core foreign exchange niche, the less users will be willing to pay and the more competition it will face. This was already visible in its first

haif results: revenue per user of its information products fell 7 per cent. Reuters probably has little choice but to sacrifice premium pricing in a drive for volume. And with a good brand; products and technology, it has some of the ingredients needed to succeed. The doubt, as ever, is whether it is pursuing the opportu-nity with sufficient vigour.

BOC

Anaesthetic gases have been BOC over the past few years. So the to group's decision to sell its health ls. care business and focus on the nore stable production of industrial gases justifies yesterday's 7 per cent

On top of that, BOC might get a ment banking, buoyed by the bull surprisingly good price. While market. Even so, Deutsche and its healthcare profits halved over the peers will struggle to produce a 10 past five years as the group's first anaesthetic lost its patent, return on capital has now stabilised at a respectable 16 per cent. And the division is developing new products, including inhaled nitric oxide for treating respiratory failure in infants. That should interest not only Abbott, the main rival, but others with anaesthetic products, including Baxier, Astra and Zeneca. In an auction, the division could fetch twice this year's estimated sales, or £900m-£1bn.

That would help BOC fund capital spending of over 2500m a year. But Although it is world number two in industrial gases with a 16 per cent also a big bite given its £2bn capi-For the first time yesterday, the talisation. Germany's Messer company sounded fairly positive on Griesheim might be more manageable. A multiple of 1.5 times last year's DM2.4bn turnover suggests a price of around £1.2bn. And Hoechst, which owns two-thirds, wants to sell out.

But any deal will have to take account of the tax position of the founding Messer family, which holds the remaining third.

Additional Lex note on Nationwide building society, Page 18

Asean admits Burma and

tute next door are not yet cer-

the genetic material, of a

sheep cell. This cell is fused

with a sheep embryo cell from

which the nucleus has been

embryo is transplanted into an

adult ewe where it grows into

Rexrodt, economics minister. called for Airbus to be restruc-"The first step must be a reorganisation of Airbus industrie from a loose consor-

tium to a unified corporation, at best in the form of a public company," he said.

Mr Van Miert, pointing out that increased globalisation would lead to similar competi-Cambodia.

tion cases, called for a revival of talks in the World Trade Organisation to improve the co-ordination between the EU and US on competition issues. "We have suggested within the WTO creating a separate structure to deal with competition

Stet avoids Helms-Burton

Continued from Page 1

islation and chairman of the Senate foreign relations committee, said the deal confirmed his suspicions that the US administration was going slow on implementing Title IV.

Although the State Depart ment is responsible for applying Title IV. some members of Congress would like to compel it to enforce the provision more strictly. So far, only two companies -

Sherritt, a Canadian mining company, and Grupo Domos, a Mexican telecoms firm - bave had executives barred from the US under Title IV. Stet is a partner of Grupo

Domos in a telecoms project in

Laos but not Cambodia

By Ted Bardacke in Kuala Lumpur

Burma and Laos were admitted as members of the Association of South-East Asian Nations vesterday amid continuing controversy over the group's attempts to broker a settlement in strife-torn

As Asean prepared to open its 30th anniversary summit in Kuala Lumpur today, Mr Hun Sen, the Cambodian leader, requested the association play a mediating role in spite of having earlier snubbed a simi-

awi. the Malaysian foreign minister, said Asean believed the two-party coalition in Cambodia should be restored. The coalition emerged from 1993 UN-sponsored elections and was topoled earlier this month in a coup led by Mr Hun Sen, the "second" prime minister. He was supported by Mr Stephen Solarz, the US envoy, who met Mr Badawi earlier in Hun Sen and Prince Norodom Ranariddh - who Asean still recognises as Cambodian's "first" prime minister – in the

should not be replaced. its invitation was frozen after minds. Mr Badawi said: "This cere-

for an unfortunate turn of three countries instead of two. It is with disappointment and regret that we view the course of events in Cambodia in the last couple of weeks." Mr Badawi was speaking

after the foreign ministers of Mr Abdullah Ahmad Bad-Indonesia, Philippines and Thailand met Mr Ung Huot, who is expected to be confirmed as Cambodia's first minister, on the margins of Asean's annual ministerial meeting. Burma and Laos join Asean's five founders - Indonesia, Malaysia, Philippines,

> Asia's most important political and economic organisation. On the 30th birthday of an association that has always abided by the principle of non-

> Singapore and Thailand - and

Mr Solarz reiterated the US intervention in the internal position that Prince Ranariddh affairs of member states, Asean foreign ministers made Cambodia should have it clear yesterday that it was joined Asean with the two not only Cambodia that other entrants yesterday, but weighed heavily on their

Potential problems in military-ruled Burma were forcing mony would have been - but Asean to examine its entire modus operendi, said Thai forevents - a ceremony to admit eign minister Mr Prachuab Chalvasan. "As Asean becomes more

open, as growing interdependence means events in one country can send shock waves throughout the region, we need to rethink some of our most basic assumptions, ranging from the meaning of development and co-operation to the implications of non-intervention," he said.

Other ministers were more moderate in their language. "The principle of non-interference...should be scrupulously adhered to," said Mr Badawi. "However . . . gentle two later entrants, Brunei and reminders from fellow Asean Vietnam, to create a nine- brothers should be accepted in Jesse Helms, author of the leg- the day and is set to meet Mr country grouping considered the spirit of maintaining the unity and credibility of Asean," he added.

> Asean Cambodian role, Page 4 Editorial Comment, Page 11

Drinks giants weigh LVMH link

Continued from Page 1

next few days.

"look very unemotioually, on

the three companies' spirits could enhance shareholder value. And they are keen to end the uncertainty created after Mr Arnault called in arbitrators

between Guinness and Moët. Mr McGrath said investors merger of Guinness and GrandMet would create significant shareholder value – as the rise in shares of each com-

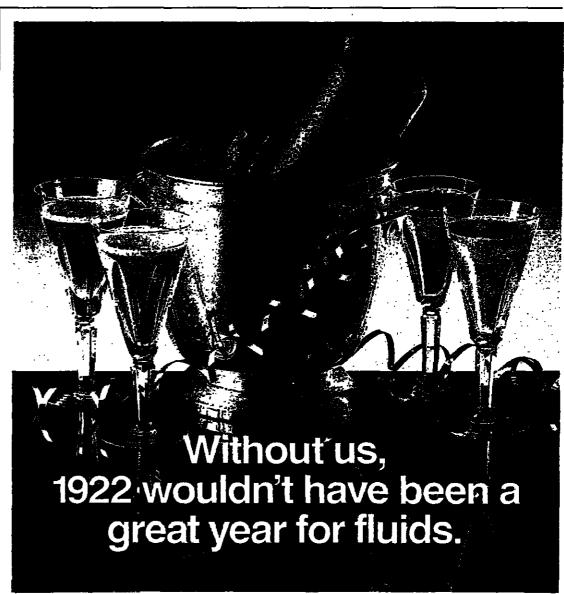
Shares in GrandMet closed down 5p at 617p yesterday, while Guinness closed off 6%p at 591%p. LVMH closed up 67

diversity, "there is no evidence that there is a conglomerate discount", Mr McGrath said. But he said Guinness and GrandMet were going to a factual basis" at an 18-page proposal from Mr Arnault. They believe a combination of were already convinced the

pany after the May 12 ent showe tures in drinks distribution

FT WEATHER GUIDE **Europe today** The Mediterranean will be fine and hot with nearly unbroken sunshine, although there may be isolated thunderstorms over the hills of northern Greece and more widespread showers in northern Sozin. The central strip of Europe. from France to Poland, will be warm and humid with sunny spells and scattered heavy showers or thunderstorms. Much of southern Scandinavia will also be showery but northern Scandinavia and much of Russia should be fine and settled with patchy cloud and sunny Five-day forecast Most of the Mediterranean will be hot and sunny but northern Greece and the hills of northern Italy can expect thunderstorms. Central Europe will continue warm but scattered thunderstorms are likely. Scandinavia will start warm with sunny spells and occasional





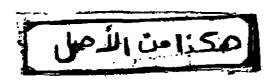
Champagne expens don't celebrate 1922 - but the automotive industry does. In 1922, Harry W Bundy conceived the best high pressure fluid carrying system since the champagne bottle and us wired cork.

He coased a brass strip with solder, wound it around twice and fused it into double walled tubing, cutting tube costs: but not strength. With his first order for the Model T Ford, he started his own tubing company in a small Detroit garage. Today, Bundy is a £718 million business and Harry's idea has evolved into the world's leading technology for brake and fuel lines. Glasses will be raised to him on Bundy's 75th birthday.

Bundy is one of Tl Group's three specialised engineering businesses, the others being Dowty and John Crane. Each one is a technological and market leader in its field. Together, their specialist skills enable TI Group to get the critical answers right for its customers. Worldwide.



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Vereinsbank-Bayerische Hypotheken deal whets investors' appetite

Tide turns for German banking

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IN BRIEF

Deutsche Bank looks to France

Deutsche Bank, Germany's biggest, signalled it was looking to expand in France by acquiring a bank or financial services network to sell investment products. Mr Rolf Breuer, chairman, said further growth in France was a priority. Page 16

Hoechst in talks to sell textile fibres Hoechst, the German chemicals and pharmaceuticals company, has held talks with several companies as part of negotiations to sell its European textile fibres division. Page 16

DuPont reports record quarterly profit DuPont, the US chemicals group, reported record quarterly earnings of \$1.1bn, up 14 per cent from last year. Page 14

French bottling duo agree merger Sidel, the French manufacturer of machines that make plastic bottles, has announced a merger with Gebo, the specialists in bottling assembly lines. Page 16

Carisberg-Tetley in push to cut costs Carisberg-Tetley, the UK's third-largest brewer, is to announce a cost-cutting drive after its merger with Bass Brewers was blocked by the UK trade secretary. Page 18

S&P puts South Korean banks on notice Five South Korean banks have been put on Creditwatch with negative implications by Standard & Poor's, the US rating agency. Page 15

Ramco in agreed bld for oil explorer Ramco Energy, the UK and US listed oil com-pany, has agreed a £54m (\$90m) all-share deal to take over JKX, the troubled oil explorer with interests in Ukraine and Georgia. Page 18

Claridge pays instalment on Koors Claridge-Israel, an investment arm of the Charles Bronfman family of Canada, paid its first instalment to Shamrock Holdings of the US for a 10 per cent stake in Koor Industries, the Israeli industrial conglomerate. Page 16

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Thursday July 24 1997

Banks soar on German merger

The German stock market produced more fireworks yes-terday with bank shares soaring as a result of speculation in the wake of the Bavarian banking merger.

Strong interim figures from Deutsche Bank, the country's biggest bank, and buoyancy in international stock markets, contributed to the advance. Bank shares, which have surged higher this week, con-

tinued their advance yesterday. Commerzbank shares rose DM2 to DM65, with the smaller BHF-Bank up DM1.79 to DM55.80. Deutsche gained DM5.50 to DM126.50, with Bayerische Vereinsbank – in which Deutsche owns 5.21 per cent - DM11.50 higher at DM115.50.

stocks has been whetted by the methods used to combine Vereinsbank and Bayerische Hypotheken und Wechsel-Bank, whose merger was announced on Monday. This will create a strong Munichbased force in German retail banking and European prop-

Investors' appetite for bank

Vereinsbank intends to deploy most of its 10 per cent minority holding in Allianz, someone has tried to swap

to offload

healthcare

business

By Roger Taylor in London

anaesthetic gases thought to

be worth up to £1bn (\$1.67bn).

Mr Danny Rosenkranz, chief

executive, said BOC had to

choose between making sub-

stantial investment in the divi-

sion or selling it. He had

decided to focus on the core

industrial gases division and

ticals group.
Analysts welcomed the

announcement and the shares

Rosenkranz denied the com-

pany had any specific plans

which required cash - such as acquisitions. The sale proceeds

would initially be used to cut

BOC's £1.3on debt, but longer

term would be used to fund

expansion of the industrial

gases business which has been

growing rapidly with capital

expenditure of about £500m a

The move reflects a trend

among companies which com-

bine pharmaceuticals and

chemicals operations to focus

on one area. ICI demerged its

pharmaceuticals arm Zeneca

in 1993, Swiss pharmaceuticals

group Sandoz floated its chem-

icals business Clariant in 1995

and earlier this year French

group Rhône-Poulenc decided

to concentrate on its pharma-

centicals division Rhone-Poul-

enc Rorer and sell part of its

Ohnieda has been in decline

since its patent on Forane, the

most commonly used anaes-

thetic gas, expired in 1993

exposing the company to com-

petition from US group Abbott

Laboratories which drove down prices. Last year,

Ohmeda made operating prof-

its of £53.1m on sales of

£505.9m compared with

£300.5m on sales of £1.97bn

Mr Rosenkranz said the busi-

ness had now stabilised and

profits had levelled in spite of

falling sales of Forane.

Demand was strong for the

company's replacement

patented anaesthetic Suprane.

at between £800m and £1bn,

saying that anything at about

£700m would be earnings

Last year, the group made

pre-tax profits of £444.9m on

enhancing for BOC.

sales of £4bn.

Analysts valued the business

seven years ago,

chemicals business.

closed up 71p at £11.43½. Mr

the German insurance group to acquire up to 45 per cent of ers Allianz shares in exchange for Hypo-Bank shares.

The deal allowed Vereinsbank to unlock substantial capital gains earned on the stake without incurring the tax liabilities that would have been due had the shares been sold in the market.

The continued rise of bank shares vesterday was based on the possibility that this model could be applied to other banks.

Commerzbank and BHF-Bank are seen as possible takeover candidates, although analysts argue that Commerzbank would be expensive at its cur-rent share price. They point to questions about the bank's strategy and credit controls. BHF-Bank, in which Allianz has a stake - as it does in Hypo-Bank, Dresdner Bank and IKB Deutsche Industriebank - has been linked with Swiss and German banks after problems with corporate loans and its industrial interests.

In spite of the market euphoria there are limitations to the way these hidden capital gains can be used to promote consolidation. "This is the first time



insurance shares for banking shares," said Mr Rolf Breuer, the Deutsche Bank chairman. "I hope it works."

But this did not mean Deutsche would be able to exchange its industrial holdings - including a 22 per cent stake in Daimler-Benz - for shares in other banks.

Mr Breuer said the Bavarian tax authorities were more flexible than their counterparts in other German states in their

understanding of how these pliewicz, banking analyst at shareholdings could be used. Salomon Brothers, said politi-Vereinsbank's planned cal pressures had played a exchange of Allianz for Hypo-Bank shares is based on a decades-old legal opinion allowing two companies to swap assets of similar type and size. "If this is accepted elsewhere for tax purposes, then it has a touch of brilliance," he

added. "It is a coup that

deserves much respect and

admiration." Mr Matthew Cze

role. "You have to believe that the political authorities put pressure on the Munich fiscal authorities," he said. Deutsche has said it wants

to reduce its industrial stakes, but is inhibited by high Ger-

Deutsche results, Page 16

BOC plans | Reuters aims at \$334m buy-back

Strength of sterling cuts half-year profits to \$556m as sales fall 2%

weeks ago to abolish tax cred- to shareholders a larger pro-

By Christopher Price

18 BOC, the industrial gases shadowed yesterday by a dip group, said yesterday it in half-year profits prompted planned to sell Ohmeda, its by the strong pound.

Shares in the group closed down 12p to 597% p after the company reported a 3 per cent fall in pre-tax profits to £335m (\$556m) on sales 2 per cent lower at £1.4bn.

The buy-back move was

its on dividends paid to UK portion of its £1bn cash pile. pension funds. Mr Rob Rowley, Plans by Reuters, the UK finance director, said this shareholders on a more equal footing.

He added that £200m was near to the maximum possible before the company incurred tax penalties. The company, which was

prevented by a change in Treasury rules from returning can through the issue of a partly prompted by the UK special dividend share last government's decision two year, remained keen to return

Reuters would like the government to adopt the US rules media and information group, allowed the company, which for share buy-backs. These ings, rose slightly to £409m. to buy back up to £200m has around a third of its inves- allow companies to acquire The media division achieved (\$334m) of shares were over- tors in the US, to treat its their own shares without hav- flat revenues of £104m. ing to cancel them and reduces tax liabilities.

With some 80 per cent of Reuters' revenues generated outside the UK, the company warned that the continuing strength of sterling would

adversely affect the current year's results as well. Revenues from the information products division, which provides hardware and ser-

speculation that Reuters has been in talks with other infor-

mation providers, such as Dow Jones or Knight Ridder, over possible joint ventures. Earnings per share slipped 3 per cent to 14.2p. The interim

vices for the financial markets. fell 3 per cent to £898m. Trans-

action products, used in for-

eign exchange and equity deal-

dividend was raised 13 per cent to 3.1p.

Lex, Page 12 funds.

Spain aims power issue at small investors

By Tom Burns in Madrid

The Spanish government will today announce plans to raise up to Ptas700bn (\$4.6bn) with the sale of shares in Endesa, the main Spanish power group, to small domestic

The centre-right government will authorise the flotation on the stock market in October of more than half of the 66 per cent stake it holds in Endesa. The sale of the 35 per cent stake is expected to raise Ptas1,000bn, nearly double the amount the government received when it sold its remaining 21 per cent stake in

Telefónica, the telecoms group, in February. The government plans to offer up to 70 per cent of the deal to retail investors, taking advantage of recent popular

enthuslasm in Madrid for share offers. Small investor demand for Telefónica stock was 10 times the number of shares offered

and the April privatisation of Repsol, the energy group, was 20 times oversubscribed. Endesa will reduce the nominal value of its shares from Pta800 to Pta200, a four-to-one

stock split, making the issue more attractive to the general public. The size of the disposal will also allow Sepi, the state holding company which is selling the Endesa shares, to offer dis-

counts to small investors and forgo the higher receipts it would earn by selling to institutions. In addition, Endesa is studying a range of other incentives for small investors that were

part of the Repsol and Telefón-ica issues. These include a guarantee against falls in the stock price and bonus shares for those who maintain their investment over a 12-month Madrid brokers say the

retail investor target is ambitious. However, the sustained bull run on the Madrid Bolsa should ensure demand meets supply. Endesa's share price Mr Rowley denied market has risen from a Pta8,510 low in February to a close yesterday of Pta12,480.

The amount of shares on offer to institutions could be reduced to just 30 per cent. Foreign institutions already own 15 per cent of Endesa and the institutional tranche of the offer is expected to be weighted towards non-Spanish

said Ohmeda would fit better with a medical or pharmaceuticals group. chance of speedy drug approval

By Tracy Corrigan in New York

Shares in Eli Lilly, the US pharmaceuticals company. umped by 2 per cent yesterday despite the announcement of a loss in the second quarter.

Investors welcomed news that regulators may give a Quicker than expected approval for a new drug to treat osteoporosis. In addition. yesterday's results showed that sales of other drugs that were recently launched on the market have grown strongly. A second-quarter loss of \$1.73bn was the result of a

decision to write down the \$2.4bn value of PCS, Eli Lilly's healthcare management business. Earnings were also affected by the sale of Lilly's 40 per cent stake in Dow-Elanco to Dow Chemical. Excluding these items and

costs stemming from a legal settlement, net income amounted to \$417.2m producing earnings per share of 76 cents, up 21 per cent from the same period a year ago and in line with analysts' estimates. Worldwide sales in the second quarter totalled \$1.98bn, a rise of 17 per cent.

Mr Alex Zisson, pharmaceuticals analyst at Hambrecht & Quist, said the numbers showed "high-quality earnings, with sales up and research and development expenses up".

RH Lilly's share price was boosted \$21/4 to \$1161/4 by the strong performance of Zyprexa, its anti-psychotic drug launched at the end of 1996. analysts said. Sales of Zyprexa were \$156m in the second quar- have bought at an inflated Lex, Page 12 | ter, nearly 50 per cent higher price, was welcomed.

than in the first quarter. In the US. Zyprexa's share of all new anti-psychotic prescriptions rose from 6.7 per cent to 12.9 per cent

"What was great about the quarter was the strength of new product sales," including Zyprexa, said Mr Ken Kulju, pharmaceuticals analyst at UBS Securities.

Sales in Zyprexa, currently marketed in 20 countries with approval for launch in a further 22, could reach \$500m this year, believes Mr Kulju, with annual sales eventually reaching \$1bn. Analysts said they were revising upwards sales estimates for Zyprexa following yesterday's numbers.

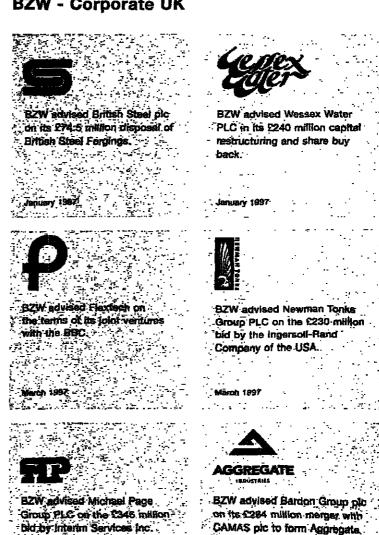
Another recent introduction Gemzar, has also performed well, according to analysts. The anti-cancer drug produced sales of \$41m, up 24 per cent from the previous quarter. Lilly also announced yester-

day that the US Food and Drug Administration has given priority review status to its raloxifene drug, a treatment for osteoporosis that will be marketed under the name Evista. This means that the final

stage of regulatory review prior to approval will be reduced from 12 to 6 months, which means the drug could be launched in early 1998. The drug is also in trials for possible treatment of cancer.

Analysts said the steady performance of Prozac, Lilly's anti-depressive, was reassuring, while the write-down of the value of of PCS, which Eli Lilly was widely considered to

BZW - Corporate UK





ROUP

AlliedSignal on target for income growth

Second-quarter figures from AlliedSignal, the diversified US manufacturer, reflect the extraordi- the group was involved in a numnary strength of the US economy. ber of mature product areas, strong with strong growth in volume and internal growth could be expected productivity, and no price infla-

Net income in the three months als and automotive business. rose 16 per cent to \$305m, or \$1.08 a share. Mr Lawrence Bossidy, chairman and chief executive, said the group was on course to achieve its goal of earnings growth of 13-17 per would bring further big gains from

growth of 12 per cent a year, of which a third would come from acquisitions, he added. Although from areas such as aerospace, and from niche products in the materi-

Productivity in the quarter rose 6.9 per cent, ahead of the long-term target of 6 per cent a year. Mr Bossidy said the next two years

defects in production and services. Six years ago, when he joined the Sales this year would be around \$14bn, and the workforce stood at margin spare parts.

Although volume was up strongly in areas such as aerospace and automotive turbochargers, the group had experienced a small decline in selling prices across its product range as a whole in the quarter. "I see no inflation," Mr

came from the aerospace business, where net income rose 28 per cent group, annual sales were about to \$115m thanks to the expansion \$13bn from a workforce of 102,000. of commercial aerospace production and improved sales of higher

> rose 16 per cent to \$137m, but net income on the automotive side was marginally down at \$48m, the effect in part of strikes at General Motors and Chrysler in the US, two key customers for the group's for-one stock split. Since the last safety restraint systems.

growth businesses, with acquisttions completed or announced in the quarter that will add annualised sales of \$550m.

Mr Bossidy said AlliedSignal aimed to achieve half its revenues The engineered materials side from the aftermarket, as opposed to original equipment, and half from outside the US. It was well on its way to achieving both these objectives, he said.

The group also announced a twostock split in March 1994, the share AlliedSignal is also continuing to price has more than doubled.

Steel group prepares to show its mettle

steel industry created as stock market as now surrounds the flotation in New York and Amsterdam of has revitalised these Ispat International, the fastgrowing. London-based group with a \$3bn price

Mr Lakshmi Mittal, the company's founder and chairman is offering a 16 460m in a share sale set to take place early next month.

Ispat, which has most of its operations in the Americas, is coming to market with an extraordinary growth record that has seen net profits soar from negligible levels at its foundation in 1989 to \$630m last year. In 1996, the net return on sales, which totalled \$1.8bn, was 34 per cent. The profit figure includes gains from revaluing assets, but even with- reduced iron (DRI) - a out this contribution, net profits were \$262m - or 14.7

per cent of sales. The figures invite three main questions from potential investors: how has Mr Mittal achieved this growth; can he maintain the momentum; and how can outside investors be sure of a fair share of the returns, when the founding shareholder will retain 97 per cent of the

voting rights? Mr Mittal, who is 47, was born into an Indian steelmaking family. He struck out on his own in the 1970s in Indonesia, successfully turning an initial \$1.5m investment in rolling mills into an international steel-

been driven mainly by the much excitement in the acquisition of underperforming steel mills at low prices. often in privatisations. Ispat operations - in Mexico. Trinidad & Tobago, Canada, Germany and Ireland - by putting in new managers. cutting costs, investing in

plant and expanding output It has concentrated on per cent stake worth about producing steel in electric arc mini-mills, which can make steel effectively in flexible small units in contrast to traditional blast furnaces. Most mini-mills operate by

converting scrap steel into marketable products, which is highly profitable when scrap is cheap. But the success of mini-mills has driven up scrap prices over the past 20 years and squeezed margins. So, steel companies have developed direct method of processing iron

ore into mini-mill feedstock. first to grasp the full commercial opportunities of DRI and has made Ispat the year of 5m tonnes. The jewel in Ispat's crown

pany has increased output (\$83m) per employee fivefold since acquisition. Mexico last year accounted for 37 per cent of group sales and 63 per cent of operating profits. Its operating margin was 18.8 per cent. By comparison, Carib-Ispat in Quebec 8.6 per cent, to 8m tonnes.



Mr Mittal was among the Stahlwerke in Germany made a small loss. Ispat is trying to raise standards by further investworld's largest producer of ment and encouraging DRI, with an output last plants to share information. It is also planning to improve its position in Geris Mexico, where the com- many through the DM150m acquisition. announced last month, of two mills from Thyssen Stahl, with a combined turnover of DM1.2bn.

The company is spending \$600m on expanding the plants in Mexico and Trinibean Ispat managed an 11 dad, which would take the per cent margin and Sidbec- group's annual steel capacity

Siderurgica del Orinoco (Sidor), the state-owned Ven- net profit figure includes ezuelan steel company, if the government goes ahead with privatisation. With an annual output of 2.9m tonnes, this would bring the prospectus says, US Ispat's capacity to nearly rules would not have 11m tonnes and take the allowed the gains to be group into the world's top 10

nalysts forecast the group could see sales and net earnings growth of 20 per cent a year over the next few years and become the world's biggest steelmaker by 2010.

It also intends to bid for consider some potential B shares which Mr Mittal

problems. First, the beadline profits from a revaluation of assets, which is now virtually complete and will not bring big gains in future. As included in net profits. USstyle figures are given sepa-

raise capital without relinquishing almost complete control. The A shares on offer will have only one However, investors need to tenth of the voting rights of

will retain. He will keep 97.5 per cent of the voting rights, or 97.1 per cent if extra shares are put into the sale under a "greenshoe option". Moreover, Mr Mittal is keening an important chunk of his business out of the flotation, Neither the Indonesian mills nor the giant Karmet steelworks in Kazakhstan are included. These are in the prospectus under the heading "potential conflicts of interest."

Finally, there is the allimportant question of price. The company says it plans to retain earnings for future growth and pay only "nominal" dividends - so the main return to shareholders will be through share price growth.

At the indicated price of \$22-\$26 a share, the historic price/earnings multiple is about 21, based on earnings of \$1.12 a share for the year to March 1997, excluding the revaluation gains. For the year to December 1998, analysts expect strong growth to take earnings to perhaps \$1.80 a share, giving a prospective multiple of about

This is a modest discount to Nucor, the fast-growing US mini-mill group to which Ispat is often compared, and which trades on a prospective multiple of about 14.5. It Ispat is also being lum- is a high price for Ispat, bered with a two-tier share given that its main structure, so Mr Mittal can operations are located in a risk-prone developing country. The entrepreneurial Mr Mittal must work hard to justify the premium rating.

Stefan Wagstyl

DuPont advances 14% in quarter

By Tracy Corrigan

DuPont, the US chemicals company which bought a large part of ICI's industrial chemicals business earlier this month, yesterday reported record quarterly earnings of \$1.1bm, up 14 per cent from last year.

The group said the increase was driven by 10 per cent volume growth in chemicals and speciality businesses and continued strength in its oll division.

"We continue to make progress in growing bustnesses where we have both a low-cost and technological advantage," said Mr John Krol, president and chief

Earnings per share of \$1.01, up from 89 cents a year ago, were in line with analysts' expectations.

Sales for the quarter totalled \$11.4bn, up 2 per cent on the previous year. Chemicals and speciality chemical sales rose 6 per cent, to \$6.5bn, on a volume increase of 10 per cent that was offset by a 4 per cent fall in average selling

Earnings from Conoco, DuPont's oil business, were up 13 per cent at \$246m, despite a 2 per cent decline in sales to \$4.9bn.

However, the effects of lower crude oil prices and higher exploration costs were limited by a 105 per cent climb in downstream earnings to \$88m, as a result of higher product margins, the company said.

DuPont shares rose \$12 to \$67% in early trading, although analysts said the results contained few positive or negative surprises. "We are in a market where no bad news is good news,' said Mr Paul Leming, chemi-

Mr Leming said the recent purchase of ICI's titanium dioxide, or white pigments, business was a good fit with DuPont's operations, although the logic of its purchase of the UK company's polyester arm was as yet AMERICAS NEWS DIGEST

United Tech powers ahead

Growing demand for commercial aircraft engines helped power United Technologies' profits to a better than expected \$1.17 a share in the second quarter, up from 98 cents last time and 3 cents better than Wall Street predictions. As in the first quarter of this year, foreign currency fluctuations had a negative impact, lopping \$149m off revenues and an estimated 4 cents from earnings per share.

Operating profits at its Pratt & Whitney engines division rose 31 per cent in the quarter to \$210m from \$160m as revenues surged 27 per cent to \$1.94hn compared with \$1.53bn in the same part of last year.

Flight systems operating income rose 11 per cent and the Otis elevator division reported a 3 per cent improvement. Group revenues were 7 per cent higher at \$6.5bn.

Christopher Parkes, Los Angeles

■ COMPUTER NETWORKS

IBM and 3Com expand alliance

IBM and 3Com, the networking equipment group, have strengthened and expanded their networking alliance to cover office workgroup and building to building "back-bone" data networks. The companies said they had agreed to further technology exchanges and a re-marketing agreement as part of their extended alliance.

They said their agreement, which highlights the integration of the data processing and networking sectors, would make it easier for customers to install and use quickly software applications that require high-capacity data networking links. These include video-conferencing, on-line financial trading, distance learning, medical imag-ing and electronic banking and shopping.

As part of the agreement, IBM said it planned to offer its own versions of 3Com's Superstack family of switches aimed at corporate departments, and to provide high-speed ATM (asynchronous transfer mode) connections to some of its future products.

Observer, Page 11 US AIRLINES

TWA and US Airways slip

Trans World Airlines and US Airways both reported a fall in profits for the second quarter yesterday. Shares in US Airways slipped \$1% to \$87% in early trading after it announced earnings per share of \$2.46 for the quarter, down from \$2.71 in the second quarter of 1996. Net profits were \$206.5m for the quarter a 2.4 per cent increase over the second quarter of 1996.

TWA shares suffered less, slipping \$4 to \$6% on the back of a net loss of \$14.4m, and operating profits of \$5.9m, for the second quarter, both down significantly on the same period in 1996 when operating profits were \$62m. and net profits \$25.3m.

Mr Gerald Gitner, TWA chairman, blamed the "disappointing" results on revenue per traveller mile covered, which slipped from 11.93 cents to 11.60 cents. He said: "The reason for this yield problem is clear. TWA has not yet reclaimed its share of the premium fare business John Authers, New York travel market "

TRANSPORT

Canadian Pacific advances

Buoyant rail and shipping business helped propel Canadian Pacific to a 34 per cent advance in second-quarter earnings. The transport and resources group's net income climbed to C\$241m (US\$174m), or 70 cents a share, in the three months to June 30, from C\$179.6m, or 53 cents. a year earlier. Revenues rose to C\$2.34bn from C\$2.05bn. CP Rail, one of Canada's two national railways, contrib-

uted C\$78.8m, up from C\$44.2m. The increase was spurred CP Ships posted record earnings, with operating income

up 59 per cent. Pressure on rates was offset by higher container volumes. CP Ships is in the threes of acquiring Lykes Lines, a well-known US carrier.

Bernard Simon, Toronto

■ ENTERTAINMENT

Time Warner settles with News

Time Warner will put News Corp's Fox News channel on Time's New York cable-TV system in a deal to settle a dispute between them, the two companies said. All outstanding litigation between Time and News Corp will be discontinued, as will all litigation between Time Warner and New York City.

The terms of the settlement were not disclosed, but it

ends a dispute that started after News Corp was unable to get space for Fox News on the Time Warner system in New York.

A bitter squabble broke out between executives from the two companies, and News Corp filed a lawsuit. The battle eventually involved New York mayor Mr Rudolph Giuliani, who had offered one of the city channels, but Time Warner legally blocked that move.

MEXICAN MEDIA Televisa chief quits

Mr Guillermo Cañedo White has resigned as chief corporate officer of Televisa, the giant Mexican media group, in the wake of a prolonged battle within the company. The company was unable to confirm reports that Mr Cafiedo and his brother José Antonio had sold their joint 10 per cent stake to Mr Emilio Azcárraga Jean, Televisa chief executive, for \$200m. The company's market capitalisa-

tion is \$4.5bn. Mr Cañedo had been widely respected as the public face of the company during difficult times, but his resignation had been expected for some time. After the death earlier this year of Mr Emilio Azcárraga Milmo, the current chief executive's predecessor and father, it was Mr Cafiedo who soothed investors with a cost-cutting plan that aimed to

save \$270m over three years. But he fell victim to a move against him by Mr Alejaniro Burillo, a cousin of the Azcárragas and a large shareholder. The company now lacks a chief financial officer, another of Mr Cafiedo's former jobs.

Daniel Dombey, Mexico City

■ CANADIAN ENERGY

Imperial Oil ahead 59%

Imperial Oil, Canada's largest integrated oil company, posted a C\$183m (US\$132m) profit in the second quarter, a 59 per cent increase over the same period last year. The company's output of crude oil and liquids increased to 262,000 b/d from 247,000 b/d in the second quarter last year. Revenue was up slightly to C\$2.61bn from C\$2.60bn. Imperial, in which Exxon, of the US, holds a 69.9 per cent stake, said its earnings were bolstered by increased heavy oil production at its recently expanded plant in northern Alberta, and improved performance at its chain of Esso gasoline stations. Natural gas sales during the quarter rose more than 22 per cent over last year.

Imperial's first half profit was C\$374m on revenues of C\$5.29bn, compared with earnings of C\$489m on revenues of C\$4.99hn last year, results which reflected a C\$250m gain from tax refunds. Scott Morrison, Vancouver

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Oil companies produce mixed results

in Los Angeles

The flow of mixed secondquarter results from US oil majors continued yesterday as lower crude oil prices helped sharpen the performance of downstream operations and ate into earnings from exploration and

Mobil, reporting earnings

\$1.06, credited strong operating results at its US refineries and efforts to step up volume sales in all divisions. Net income, excluding a

\$20m charge for its refinery and marketing alliance with British Petroleum, rose 8.5 per cent from \$783m to \$850m. Income from chemicals rose \$26m to \$91m.

RHEINMETALL

Badenwerk

British Aerospace

have acquired

STN ATLAS HOLDINGS GMBH

from the Trustee in bankruptcy

of Bremer Vulkan, Dr Jobst Wellensiek

Rothschild GmbH

Frankfurt am Main

acted as financial advisor to the Seller

\$1.26, reflecting a charge for a stock option scheme. Discounting one-off charges, net income rose 20 per cent from

\$700m to \$837m Upstream divisions overrode the effects of reduced crude rates due to higher production and reduced taxes on some overseas operations. Chemicals profits Chevron's earnings per improved as a result of lower

sales increases. leum, said losses on chemi-Unocal, which recently cals in the second quarter of sold its Californian oil refining and gas assets, reported earnings per share down at 48 cents from 92 cents, and

prices for crude and natural gas and increased international exploration costs. Shell Oil, the US subsid-

last year had been turned into profits of \$155m this Net income was up 15 per

said its results had been cent at \$531m, due in part to affected mainly by lower a tax adjustment gain of \$55m. Exploration and production income was down \$45m from a year ago at

Liberalisation hits profits at Telmex

By Daniel Dombey in Mexico City

The rigours of life in a liberalised market pushed down second-quarter sales and profits at Teléfonos de México (Telmex), the country's former teleco But although long distance

revenues were sharply down, local revenues increased significantly. Midway through New York trading yesterday, the company's American Deposi-

tary Receipts had edged up 1 per cent to \$50%. "The most important factor in Telmex's first half performance has been the opening of the Mexican market to competition," said Mr Adolfo

Cerezo, chief financial offi-The company has retained a 75 per cent share of subscribers in the 60 cities where long distance competition has been introduced, and Mr Cerezo said that the company's revenue per line was broadly the same as that

net profit was 2.6bn pesos are bypassing Telmex and (\$330.78m), a drop of 34.8 per cent on the same period in 1996. The company blamed the fall on the effect of interest and exchange rates on the value of its holdings, as well as the impact of its

operating results. 7.5 per cent to 4.6bn pesos as gramme. Telmex also costs increased and prices announced yesterday that it fell as part of the company's was planning to issue 9bn fight against competition.

were 13.6bn pesos, 0.7 per cent below the same period a year before. But the incremental change masked significant shifts in the compo sition of Telmex's revenues. International long-distance

11.1 per cent to 3.8bn pesos. Despite lower prices, the total number of minutes billed for international long-distance calls rose by only 1.4 per cent compared

However, Telmex received nection fees totalled only their clients.

of between \$1.1bn and \$1.3bn this year, largely on improving local infrastructure, and that it would continue with Operating profits dropped its share buy-back propesos of commercial paper.

Total sales for the quarter

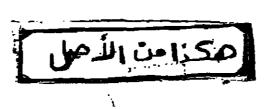
revenues fell 36 per cent to 2.5bn pesos, while national long-distance sales declined

with the second quarter of

Meanwhile, local service revenues jumped to 6.6bn pesos, up 30 per cent on the second quarter 1996, largely because of a continuing drive to increase local rates. Up to now, the wafer-thin margins of the local business have rendered it a virtual monopoly.

less revenue than expected from connecting other operators to its network. Interconof its competitors. 125m pesos, which may indi-Telmex's second-quarter cate that the group's rivals installing private lines for

Mr Cerezo added Telmex cals analyst at DMG. planned capital expenditure



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COMPANIES AND FINANCE: ASIA-PACIFIC

H-shares take turn in the limelight

HK-traded stock of state-owned China enterprises has recently found renewed investor interest

Red chips, the Hong Kong-listed main-land-backed companies which inspired a buying year. frenzy in the territory's last

state-owned enterprises, prior to listing - and to marked China's first big develop acquisitions. experiment with overseas capital markets but have in ings has caught investors' recent years fallen out of imagination and resulted in favour with investors.

enjoyed huge success: the in July 1993 of Tsingtao cent, while daily turnover Brewery was 111 times sub- more than doubled to scribed and the share price rocketed in the first few

But H-share euphoria soon evaporated, especially once results started coming in. Profit growth seldom met expectations and losses were increasingly recorded.

"The first listing came at the peak of China's eco-nomic cycle," says Ms Pitzi Lau, analyst at Salomon Brothers in Hong Kong.
"Then came the credit squeeze fin Chinal for three years or more. And in an economic slowdown, how can you have basic industries outperforming?"

Now, however, it is again the turn of the H-shares to shine - albeit, some analysts believe, only briefly and with scant justification. Tsingtao's shares roused from a long slumber to double in price last week, while Shanghai Haixin Shipping saw its shares jump fivefold. The sector was sparked at the parent of Shanghai

ed chips, the Hong Halxin - a shipping com-Kong-listed main- pany listed in 1994 and lossmaking from the following

Next came Tsingtao, Earmonths of colonial rule, have lier this month it announced been toppled from their the formation of a holding perch by their ugly sister - company, both to receive mprofitable "businesses" -H-shares, the name given including the kindergartens to the Hong Kong-traded and hospitals which subsestock of former mainland quent H-shares bived off

Talk of further restructura swing from red chins to In their early days they H-shares. In the first half of this month the index track-

> Restructuring brings some of the red chip gloss to H-shares, raising the possibility of future asset mjections - at attractive rates from the new parent, and also of greater diversification. While many red chips are mini-conglomerates with interests spanning property, retail and infrastructure, H-shares are single industry enterprises and usually highly cyclical.

Mr Lawrence Ang, head of China research at Deutsche holding company capable of draining off unprofitable operations - and hence improving an H-share's earnings - would also improve the listed vehicle's ability to raise capital.

Red chips have tapped the markets vigorously, using share placements to fund acquisitions. H-shares, by contrast, have seldom returned after their initial public offerings.

In addition to their dull

China Everbright, the acquisitive business arm of China's State Council, has taken a 7.5 per cent stake in Angang New Steel, which today becomes Hong Kong's 33rd listed China state owned enterprise, or H-share, writes Louise

Lucas in Hong Kong. China Everbright Holdings, which has three Hong Konglisted arms, did not disclose the price it had paid for the stake. However, based on the issue price of HK\$1.63, the purchase would have cost HK\$270.58m (US\$35m). The com-

pany said it bought 166m shares, representing about 18.7 per cent of the total H-shares to be listed.

While the sale of advance stakes to well-known companies has boded well for previous H-share listings, analysis are more cautious in the case of Angang Steel, which is the first such offering since 1995 that has not been fully taken up. Pricing was scaled back, and with it Angang's ambitions to raise up to HK\$1.75bn, but the 89m shares offered were still only 99.7 per cent subscribed.

Shares were priced at the lower end of the HK\$1.61 to pioneering Hong Kong issue ing H-shares rose 15 per HK\$1.97 range, and Augang raised just HK\$1.450n from its in July 1993 of Tsingtao cent, while daily turnover sale of 890m shares. Despite being the first H-share listing since Hong Kong reverted to China, analysts expect it to make a weak debut on the stock exchange today.

> earnings outlooks. H-shares speculation - what fundarules imposed from Beijing which make share offerings a combersome undertaking. Both regulatory and shareholder approval is required, and the process can last more than six months.

But Mr Ang sees this changing, as part of a drive by the Chinese government to galvanise its listed corporate sector. "This Morgan Grenfell, adds that a sort of reform is going to be a key focus of China's upcoming party congress," he says. "They've done very well on the macro adjustment: now the major task is on the micro, or corporate,

> lysts the closest similarity between the re-rating taking place among H-shares and the red chips in whose path they follow is unjustifiably high price tags.

However, for many ana-

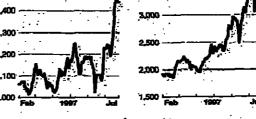
have been hampered by mentals can change in the Lau, pointing to Tsingtao's price/earnings multiple of 70 times 1997 earnings. Hong Kong's benchmark Hang Seng Index is trading on a comparable multiple of

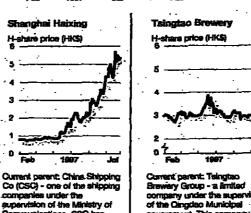
around 15 times. Mr John Pinkel, head of China research at Merrill Lynch, says the red chip formula cannot simply be grafted on to H-shares because, for example, of differences in the status of the parent companies. Red chips are generally backed by asset-rich provinces and cities, rather than the standalone enterprises that spawned many H-shares.

Moreover, H-share companies may find it harder to find the high-quality assets which helped make the red chips.

Citic Pacific, Beijing's main investment vehicle and "It is purely driven by arguably the first red chip,







companies under the supervision of the Ministry of overnment. This company is Communications, CSC has ooking to acquire as shipping industry Parent's stake 56.45%

arc/ICV, company reports and Salomon Brothers

won investors' dollars on a will to push the sector fordiet of stakes in significant Hong Kong companies such as the airline Cathay Pacific, the territory's de facto flag

the parental restructurings. says any re-rating of H-shares is justified.

ward, creating the strong possibility that change will happen.

"This is not just a story made up by speculators," he But Mr Ang, pointing to says. "China realises its the efficiencies and earnings listed vehicles are transpargrowth he believes will arise ent and have to perform well "almost immediately" after if they are to raise the parental restructurings, money...especially after the red chip euphoria, they see the opportunities."

Louise Lucas

S&P warns on Korean banks

By John Burton in Secut

commercial banks were yes terday put on Creditwatch with negative implications by Standard & Poor's, the US rating agency, in response to and Dainong retail groups. the near-bankruptcy of the Kia group, Korea's third-

The banks - Korea First, Korea Exchange, Hanil, Shinhan and Korea Long-Term Credit - have a total exposure to Kia of \$1.9bn. according to S&P.

"The action reflects the deteriorating asset quality and heightening industrial risks faced by Korean banks as defaults continue to emerge among Korea's performance will stay weak. highly leveraged industrial conglomerates," it said.

Several Korean banks had their credit ratings down-quality among many Korean graded by other agencies banks," S&P said.

the collapse of the Hanbo South Korean and Sammi steel groups. The leading banks have since agreed to rescue other troubled conglomerates, including Kia and the Jinro liquor

S&P was "concerned about and, ultimately, to the banking sector". It said it expected the five banks would have to provide

added financial support, while losing interest income. as Kia tries to restructure. : Even if Kia and other groups are saved because of anti-bankruptcy pacts with the banks, their financial "This could result in higher non-performing loans and further weakening of credit.

Falling peso hits San Miguel

pine food and beverage group, is one of the most prominent blue-chip losers from the recent depreciation of the peso, adding to investors' negative sentiment on the group.

The 14 per cent price cht on its top-selling beer announced late last month, together with the de facto devaluation of the peso two the spillover of defaults to weeks ago, has hit the other sectors of the economy group's share price - San Miguel B shares are 22 per cent down from a month

> The group argues that the limited depreciation of the peso - it closed at 28.5 to the dollar vesterday, down 7 per cent from its level before the group has thrown itself into central bank surrendered to speculators - will contain

the impact on profits. At PLDT, the former telecoms monopoly, by contrast, a one peso depreciation translates to an additional net income of 500m pesos (\$17.54m).

"For every one peso forex aluminium and soyabean analyst. "But we don't yet decline, there's a little over meal for the food business -100m pesos erosion at the are crucial to the group's bottom line," says Mr Albert beer division, which de Larrazabal, senior accounts for about 50 per

vice-president of treasury at cent of group sales. San Miguel. "That reflects Mr de Larrazabal says that higher raw materials cost on of the group's foreign debt of the imports side and to some about \$250m, 90 per cent is sevent also our between the same and the same about \$250m. extent also our international long term and has not been

'For every one peso decline, there's a little over 100m pesos erosion at the bottom line'

operations. As they are at the loss-making stage, those losses will be correspond-

ingly higher." Faced with flagging an international expansion programme. Setting up in be made on the group's China was proceeding according to plan, said Mr de Larrazabal, but problems had been experienced in Indonesia, related to political

unrest earlier in the year.

imports - of malt, paper,

affected by punitively high interest rates, which were brought on by the central bank raising its key overnight borrowing rate to as domestic beer sales, the high as 32 per cent in order to defend the peso against speculators. Some gains will

> "Of the blue chips, San Miguel is definitely one of the worst affected by the slide in the peso," says one

exports of coconut oil and

know how much can be passed on to customers on the food side. Clearly, on the beer side, the lion's share of the group's business, they have no choice because they have only just cut prices and so margins will be

squeezed." Paribas Asla Equity is downgrading its 1998 earnings forecast by 8 per cent to take into account the price cut and a weaker peso.

One indication of fraying tempers caused by a tough domestic beer market came over the weekend, with the raid by Asia Brewery and police of a San Miguel beer plant to recover crates and bottles. It claimed they were being held by San Miguel to stifle competition.

Asia Brewery launched a \$4m suit against the group. Not to be outdone, San Miguel said that it would file a countersuit.

Justin Marozzi

ASIA-PACIFIC NEWS DIGEST

Warner-Lambert in S Korean deal

LG Chemical, of South Korea, yesterday signed a deal with Warner-Lambert, the US pharmaceutical company. to develop and compercialise an oral thrombin inhibitor. The US company will pay an initial \$40m to LG for the right to market the drug, called LB30057. LG expects total royalties from Warner-Lambert to exceed \$1bn by 2015.

LG Chemical will have the exclusive marketing rights in selected Asian countries for the drug, which it has developed since 1993 at a cost of Won5bn (\$5.5m). The drug, which is in the final stages of clinical testing, will be used to treat deep vein thrombosis and pulmonary

It is the second big partnership for LG with a foreign pharmaceutical company this year. In May, it agreed to provide SmithKline Beecham, of the UK, with a new anti-biotic for respiratory and urinary infections at an initial price of \$38m, with royalties expected to reach \$670m over the next 20 years.

■ PHOTOCOPIERS

Konica signs up Eastman Kodak

Konica, the Japanese photographic and business equipment maker, has signed an agreement with Eastman Kodak under which it will supply the US group with own-brand plain paper photocopiers. The deal could be worth more than Y10bn (\$8.6m) in the first year, if sales of related supplies are taken into account.

Over the next year. Konica will supply Kodak with about 10,000 units of the Konica7050, a digital copier with a capacity of 50 sheets a minute, on an original equipment manufacturer basis. They will be distributed under the Kodak brand name through Danka Business Systems, which has worldwide distribution rights for Kodak photocopiers. Konica has been selling the same machine under ts own name since 1995, and will continue to do so.

■ MITSUBISHI MOTORS

Injection for US units

Mitsubishi Motors, the Japanese carmaker, has injected an extra \$350m into its two main US units and eliminated their accumulated losses that had totalled \$1.7bn. The company said the latest measure marked its final step in restructuring the struggling US operation, which has been hurt by sluggish sales and a sexual harassment case involving a number of employees at its plant.

The injection will enable the two companies to turn profits in the second half of this year, although the US business will still remain in the red for the entire year. The latest step does not affect Mitsubishi's group earnings outlook for the current year, because it had already been taken into account. It follows similar steps in the previous AP-DJ. Tokuo

INDIAN TELECOMS

VSNL plans offering

Videsh Sanchar Nigam (VSNL), the Indian international telecoms monopoly, will make a domestic public offering of 690,000 shares in September to follow its issue of Global Depositary Receipts in March, which raised \$527m.

The issue, which is VSNL's first public offer to Indian investors, will be priced at a 10 per cent discount to the GDRs. It is expected to raise Rs621m (\$17.39m) for the gov-AP-DJ. Bombau

■ HONG KONG

Cathay Pacific to shed jobs

Cathay Pacific, Hong Kong's de facto flag carrier, is cutting 350 jobs as a result of its move to the new airport at Chek Lap Kok, which is due to come into operation next April. The existing smaller facility at Kai Tak will then

The company said the job losses, which represent about 3 per cent of its Hong Kong workforce, resulted from a change in the operating functions at the new airport. Duties previously managed by Cathay Pacific, including ramp handling and vehicle maintenance, will now be con-

Cathay said it had appointed a placement agency to help find new jobs for the displaced staff, and was also talking to the airport franchise holders to see if they could hire the workers. Louise Lucas, Hong Kong



NOTICE **WORLDINVEST INCOME FUND**

DECLARATION OF DIVIDEND No. 41

The Trustees of the Worldinvest income Fund are pleased to announce an interim distribution of USS7.00 per share to Shareholders in respect of the half-year period from 1 January

For holders of bearer units with accompanying coupons. Coupon Number 41, and any previously unpresented coupons, may be presented for payment on or after 1 August 1997 to:

PO Box 120, Union House, Union Street, St. Heller, Jersey, JE4 BOE, Channel Mands For holders of registered units; the dividend will be distributed in accordance with individual mandating tremudions in place.

kAmerica Trust Company (Jersey) Limited

Payments will be made subject to any applicable fiscal or other regulations within fourteen days of such presentation.

and the Worldinest Excelle Fund will be available at the offices of the Manager from 18 August 1997.

Interim Report and Accounts for both the Worldinyest Income Fund

WorldInvest (Managers) Jersey Limited

Natice to the Holders of to subscribe for shares of

common stock of tasaki shinju co., ltd.

issued in conjunction with U.S. \$100,000,000

1½ per cent, Guaranteed Bonds Due 2007 occordance with the resolution

or the board or breators or traces, Shinty Co., Ltd., [the "Compony"] adopted at its meetings held on 7th July and 15th stuly, 1997, the Company issued Japanese yen 12,000,000,000 Convertible Bonds due 31st October, 2006, at an latical conversion price of 4750 per share, on 23rd July, 1997. The said conversion price is less than the

As the result of such issue, the Subscription Price of the captioned Warronts has been changed from ¥1,168.5 to ¥1,152.7, effective on 24th July, 1997, Joseph Lime.

TASAKI SHENJU CO., LTD. By: The Normanukin Bank os Principal Paying Agent 24th July, 1997

This announcement appears as a matter of record only.

£800,000,000

CHARTERHOUSE CAPITAL PARTNERS VI

The Fund has been formed by Charterhouse Development Capital Limited to invest in unquoted equity investments in the United Kingdom and elsewhere in Western Europe.

The undersigned acted as financial adviser and arranged for the private placement of the limited partnership interests.

Donaldson, Lufkin & Jenrette

May 1997

MGI Secured Obligations Ltd. MGI Secured Obligations II, Ltd. announced on July 15, 1997, offers to repurchase, respectively, MGI ECU Bonds due 1998

MGI (Series II) ECU Bonds due 1998 Copies of the Offer document have been mailed to registered bondholders and are available at the Fiscal Agent, Kredietbank S.A. Luxembourgeoise

£150,000,000

Securities Corporation

eutsche Bank signals French purchase

in Frankfurt

Deutsche Bank, Germany's biggest, yesterday signalled it was looking to expand in to DM1.49bn (\$822m), with France by acquiring a bank or financial services network DM2.30 to DM2.90. This was

Mr Rolf Breuer, chairman, said France was the biggest potential member of the single European currency after achieve a higher profit for Germany, and further the whole of 1997 than last growth there had a high pri-ority. "This is one of the bigat," he said.

asset management business in France, he added.

ulation about financial services restructuring after on the first half of last year. Monday's announcement of the merger between Bayer-ische Vereinsbank and investment banking, rose 48 Bayerische Hypotheken-und Wechsel-Bank.

However, Mr Breuer gave tude of the new leftwing gov- half.

foreign bank activity and 7 per cent to DM5.7bn, with privatisations would deternet commission income ine strategy.

He also announced a 27.5 per cent rise in net income earnings per share up from to sell retail investment slightly above analysts' expectations.

"We are confident that, if the markets remain favourable, we shall be able to year," he said.

Investment banking made gest things we are looking a strong contribution. The half. group's Deutsche Morgan The group needed Grenfell unit earned as director, said the bank increased distribution for its much profit in the first half as in all of 1996. It contributed DM835m to group oper-His comments fuelled spec- ating profits of DM2.86bn, save DM1bn on budgeted which were 11.4 per cent up

Financial trading profits, though Mr Breuer said this However, Mr Breuer gave pace would not necessarily no details and said the atti-

Net interest income rose

umping 26 per cent to DM4.15bn. The bank cut its risk provisions 35 per cent to DM529m, saying the quality of the loan portfolio had improved.

Pre-tax profits increased 24 per cent to DM2.8bn. Costs rose 27 per cent to DM8.9bn, reflecting continued foreign expansion in investment banking. Mr Breuer said cost management would slow the growth in expenses in the second

Mr Jürgen Krumnow, a would adopt a tough policy towards costs, especially outside Germany. It planned to annual costs by the end of

For example, the bank plans to concentrate trading activities, currently carried cent to DM2.04bn, out in 35 centres, into five centres: Frankfurt, London, New York, Tokyo and Singa-



'It's a wonderful day for European banks'

By David Owen in Paris

Yesterday's comments by Deutsche Bank helped produce a stampede for French bank shares in heavy trading on the buoyant Paris stock CAC-40 index.

Shares of two banks - Banque Nationale de Paris and Crédit 7.8 per cent, respectively. Commercial de France - were briefly suspended for a cooling-off climbing FFr28.30, or 7 per cent, to up by this week's big German

By the end of the day, leading FFr45, or 6.1 per cent, to FFr783 bank shares had registered gains of between 5 per cent and 10 per cent, compared with just under FFr376.50. 3 per cent for the benchmark

BNP and CCF were at the top of the pile, rising 10.1 per cent and Paribas was not far behind, they had already been ratcheted

FFr430.70: Société Générale rose bank merger.

and Crédit National was up FFr18.60, or 5.2 per cent. to

Analysts attributed the surge to

expectations of European bank restructuring. Although these were reinforced by the Deutsche Bank comments,

Some also suggested that French bank stocks had underperformed many of their European counterthat their time was ripe to make up some of this leeway. Yesterday's developments

bon analyst.

controlled insurance group

banking network. Severe opposition forced administration last year to scrap plans to sell a majority stake in

European banks." said Mr John new Socialist-led government Leonard, European banking ana- cleared the way for the break-up lyst with Salomon Brothers in and sale of GAN, the state-GAN controls CIC, the regional

parts for a considerable period and France's previous centre-right CIC to a rival French bank.

Hoechst in spin-off talks |EdP in phone bid group

By Graham Bowley in Frankfurt

Hoechst, the German chemicals and pharmaceuti- towards Asia, where local cals company, has been in producers have preferred to talks with several companies as part of negotiations to spin off its European textile fibres division.

It said yesterday it was which could include a joint also considering floating venture.

Messer, its industrial gases It con and welding unit. But it said been in talks with Polysindo. any move would not happen an Indonesian company.

structure before it was listed, Hoechst said.

The decision to spin off the European textiles fibres restructured, transforming division, part of Hoechst's itself into a holding com-Trevira group, comes amid a slump in the European divisions have become

sion has struggled as the focus of the textiles industry has shifted from Europe use local suppliers.

Hoechst said it was considering a number of solutions for its textiles fibres unit.

It confirmed that it had among others.

formed from a limited liabil- meeting earlier this year ity concern into a company that he was considering "furwith a full shareholding ther development options", including partnerships, for

Hoechst has radically pany in which its individual

NOTICE OF EARLY REPAYMENT

ECF 3 000 000 000

Euro Medium Term Note

Euro Depositary Receipt Programme

Lavoro Bank Overseas N.V.

Banca Nazionale del Lavoro S.p.A.

Series Nº 5

Banca Nazionale del Lavoro S.p.A.

US\$ 200,000,000 Floating Rate Depositary

Receipts due 1999

(the «Receipto»)

In accordance with Condition 4(e) Redemption at the option of the Company of the Terms and Conditions of the Receipts

and Article 15 of the Pricing Supplement constituting the Re

cerpts, notice is hereby given that the Bank will exercise its

option to redeem the Receipts on the next Interest Payment

Payments of Principal and Interest in respect of the Receipts

will be made against presentation and surrender of the rele-

vant Receipts or Coupons as the case may be at the specified

Interest will cease to accrue on the Receipts as from Au-

Receipts and Coupons will become void unless presented

for payment within ten years (in the case of Recepts) and

five years (in the case of Coupons) from the Relevant Date

as defined in Condition 6 of the Terms and Conditions of the

Issuing and Paving Paving Agent Krediatbank S.A. Luxembourgeoise

43, boulevard Royal L-2955 Luxembourg

office of the Issuing and Paying Agent listed below.

Date, August 29, 1997.

Luxembourg, July 24, 1997

- London Branch

textiles industry. The divi- legally independent companies which operate under the

> • SGL Carbon, one of Germany's most successful companies over the past two years, has stepped up its push into world markets with the purchase of three US and UK carbon fibrerelated companies.

SGL Carbon, whose shares, until recently, have been a top performer since its demerger from Hoechst, Messer, which is two- Mr Jürgen Dormann, said its US division had A strategic foreign partner thirds owned by Hoechst, chairman, said at the bought Hitco Technologies, a is being sought and analysts would have to be trans- group's annual shareholders specialist in carbon fibre said Cable and Wireless, the components in the US.

Lawton, the UK carbon fibre processor, through its Scottish subsidiary and a 60 per cent stake in David Hart, a

July 21, 1997

By Peter Wise in Lisbon

Mr Belmiro de Azevedo. Portugal's leading entrepreneur, and the state-controlled Electricidade de Portugal, have joined forces to bid for the country's third mobile telephone licence. In an unprecedented alli-

ance between the public and private sectors, Imparsa, spun off from Mr de Azevedo's Sonae conglomerate in January, will hold a majority stake in the consortium.

It has also acquired PG | tions group, is a frontrunner. The consortium already includes two other publicsector companies - Transgas, the natural gas operaspeciality graphite machine tor, and Gas de Portugal, a shop in Alcester, UK. The gas distributor - as well as company gave no details of Maxitel, a telecoms coml pany.

NOTICE TO BONDHOLDERS OF

Formosa Chemical & Fibre Corporation

("FCFC")

US\$250,000,000

1 3/4 per cent. Convertible Bonds due 2001

NOTICE IS HEREBY GIVEN that the Company has determined to fix August 5th as the Record Date and the Consolidation Date for this year. Pursuant to the laws of R.O.C. and the terms and conditions in the Offering Circular and indenture, the Company will close its stock transfer book and will suspend the Bondholders' Conversion Rights tom August 1st to August 5th. Thus, Bondholders have to submit their Conversion Notices to the Company's Principal Conversion Agent, Clibbank N.Y., by July 30 in order to be included in the year's consolidation. After the Consolidation Date, the Company will proceed with the necessary filing and registration for capital increase in order to issue new Shares in exchange for the Entitlement Certificates issued and outstanding on or before such Consolidation Date.

The Company will deliver 3.5% stock dividend per share to its Shareholders. In accordance with the Offering Circular and indenture, the applicable Conversion Price will be adjusted from NT\$35 to NT\$4 per share effective August 5th. The excess number of Entitlement Certificates derived upon the adjustment of the Conversion Price will be declared in 2D days after the Consolidation Date and then will be exchanged into Shares together with the Entitlement Certificates are the Consolidation Date and then will be exchanged into Shares together with the Entitlement Certificates bould also consult terms and conditions in the Offering Circular and indenture for more details of the conversion.

FORMOSA CHEMICAL & FIBRE CORPORATION

BY: Citibank N.A. as Principal Conversion Agent

THE ESTABLISHMENT TRUST. SICAV

DIVIDEND NOTICE

At the meeting of shareholders held on 17 July 1997 it was resolved to

pay a dividend of US\$0.10 per share to shareholders on record on

17 July 1997 and to holders of bearer shares upon presentation of

coupon No. 12 payable on or after 24 July 1997 with shares being

Registered Office: Luxemb

rated in Taiwan, Republic of China)

"It is difficult to imagine a consortium more likely to win the licence or a group that poses a more powerful threat to customer franchise of the two existing mobile phone operators," said a Lis-

The government is due to award the third licence by the end of the year. Sonae, Portugal's biggest private-sector group with sales of Es451bn (\$2.46bn) in 1996, lost a 1991 bid for the

second mobile phone licence. Analysts said one of the biggest threats to the existing operators was the marsupermarket chains and EdP's huge customer base. Mr de Azevedo owns 52.1

per cent of Imparsa, demerged to handle the industrial holdings of his distribution-led Sonae group, and other diverse interests.

cel, now controlled by Air-Touch of the US. The first-established operator was Telecomunicações Móveis Nacionais, of the state-controlled Portugal Telecom

Telecel vesterday reported a 127 per cent increase in first-half net profit from Es2.58bn last year to Es5.85bn. It added 124:197 subscribers, reaching a total of 455,585, up 99 per cent from the end of June 1996.

The government has reserved 40 communications channels for the new opera-UK-based telecommunica- keting potential of Sonae's tor, ensuring it will be able to compete on equal terms with existing licence holders using the digital Global System for Mobile communications standard.

The Imparsa-led consortium is believed to be committed to a start-up invest-Portugal's second mobile ment of about Es40bn.

French bottling duo agree merger

By Samer Iskandar in Paris

Sidel, the French manufacturer of machines that make plastic bottles, yesterday announced a merger with Gebo, specialists in bottling assembly

lines. The combined group is expected to have annual sales of between FFr4bn and FFr4.5bn (\$655m-\$737m), up from FFr3.6bn for the two

Sidel expects the merger to give it a headstart in beer bottling, a market in which

Gebo achieved 58 per cent of its sales last year. Mr Francis Olivier, Sidel chairman, said he was "con-

vinced that beer will shift to plastic [bottling] on a large scale". Beer has a very short shelf life in existing plastic packaging.

plastic bottling will continue at an annual growth rate of about 14 per cent until the year 2000.

Mr Pierre Schoen, Gebo chairman, said the merger would have a positive effect on earnings per share from next year.

He added that Gebo would continue to diversify into sectors in which production speed was becoming a priority, such as cosmetics, pharmaceuticals and detergents.

Last year, Sidel's sales fell 15.8 per cent to FFr3.1bn and profits declined 30 per cent to FFr263m.

Gebo had sales of FFr495.3m, up 30.8 per cent from 1995, and net profits of FFr58.3m, up 49.5 per cent. A public offering of shares on the Paris bourse in June 1996 was 36 times subscribed.

The merger will take the form of a share exchange, at Sidel is also optimistic a rate of 21 Sidel shares for that the globalisation of 10 Gebo shares.

EUROPEAN NEWS DIGEST

services group, yesterday added its name to the list of potential bidders for GAN, the French state-controlled insurance company which the government confirmed last week it would privatise.

"We are confident that an integration with Eureko represents the best option," said Mr Jeff Medlock, chief executive of Eureko. "We will ensure that GAN retains its . essential French identity while benefiting from [Eureko's] European network."

Eureko, Europe's seventh-largest insurance group with 33,000 employees and more than Fl 200bn (\$33bn) in asse said the acquisition of GAN would put it in third place. The group, which owns stakes in insurance companies in six countries - Germany, Sweden, Denmark, Portugal, the Netherlands and the UK - said it would float its shares in two or three years, in London, Paris and Amsterdam.

Several French and foreign insurance groups have also shown interest in GAN since France's new socialist government confirmed it would proceed with the company's privatisation as planned by the previous administration. French insurers MAAF and AGF are among the candi-dates, as well as the Zurich group of Switzerland and Allianz, the German insurer.

■ DEGUSSA

Precious metals arm to be split off

Degussa, the German metals and chemicals group, yester day raised the prospect of fresh restructuring when it revealed that it may split off its struggling precious metals division into a separate company in a renewed bid to make it more competitive.

However, the company stressed that the restructuring which could come as soon as October - would not involve the sale of the division, which has annual sales of more than DM6bn (\$3.3bn) and about 3,000 employees. Analysts had anticipated a fresh move to boost shareholder value at Degussa after the purchase in May of a 36.4 per cent stake in the group by Veba, the German power and industrial group, for DM2.9bn. The group said in January that the performance of its precious metals division was unsatisfactory. It blamed a strong downturn in the electronics Graham Bowley, Frankfurt area, especially in the US.

PORTUGAL

BCP ahead 21% in first half

Banco Comercial Português, Portugal's biggest commercial banking group, lifted first-half net consolidated profit 21.3 per cent from Es10.8bn in the same period last year to Es13.1bn (\$74.5bn). Earnings per share rose from Es91.6 to Es93.2, indicating that net income growth had offset the dilution of earnings caused by two capital increases in 1996 and 1997.

Income before taxes and minority interests climbed 31.1 per cent, from Es24.2bn to Es31.8bn. Mr Jorge Jardim Gonçalves, BCP president, said the group was ready to resume a strategy aimed at increasing market share after completing a restructuring process that followed the Es308bn acquisition of Banco Português do Atlâantico two Peter Wise, Lisbon

B-BANKING **New chief for Moscow Narodny**

Russia's central bank yesterday moved to shake up the London-based Moscow Narodny Bank, in which it is a controlling shareholder, in an attempt to raise the comnercial bank's profile in the UK. It announced the appointment of Mr igor Suvorov as MNB's chief executive with a brief to introduce tighter financial controls and develop the banks's trade financing activities more

"Trade links between Russia and Britain are not as strong as they could be. Moscow Narodny Bank must find more clients in London," Mr Sergei Aleksashenko, a deputy chairman of the central bank, said yesterday. Mr Suvorov previously ran MNB's Singapore branch. The management shake up follows the discovery earlier this year of a £6m potential fraud against the bank involving : US customer with Ukrainian connections, Moscow Narodny has begun legal action to recover the money. John Thornhill, Moscou

■ PHARMACEUTICALS

Elan jumps to \$40.1m

Elan, the fast-growing Irish pharmaceuticals company, lifted net profits in its second quarter to \$40.1m from \$28m in the same period a year ago. However, an issue of new shares in the takeover last year of Athena Neurosciences, the California biotechnology company, held earnings per

share at 38 cents, compared with 34 cents a year ago. Elan, whose shares are listed on the New York Stock Exchange, reported revenues for the second quarter up from \$67.6m to \$85.8m. Some \$45.6m of this came from product sales with most of the rest from royalties and fees. For the first six months, net income and earnings per share were \$77.3m and 73 cents respectively, compared with \$56.6m and 69 cents.

Elan shares were up \$% at \$47% in early New York trad-

LUXURY GOODS

LVMH in FFr1.6bn acquisition

LVMH, the French luxury goods group, yesterday announced the FFr1.6bn (\$262m) acquisition of Sephora, France's leading perfume and beauty products retailer. LVMH is buying the company, – which generated 1996 sales of FFr1.37hn from its 54 retail stores employing nearly 1,500 people – from the founders who established it in 1973. It said the deal was being financed by debt. David Owen, Paris

Koor marks shift for Claridge

The Hokkaido Takushoku Bank, Limited

U.S. \$100,000,000 1%% Convertible Bonds due 2002

(ISIN: GB0044311784) per and The Processes Taleusinoise Basin, Limpos, Limpos Taleusinoise Republishment (Indiana) chief lipping agent in relation to the Bondah hereby advices all holders under that, with effect from August 15, 1597, The Maldaddo Taleushole London Branch will be replaced in its capacity se principal poying gard, convention agent and replacement agent in respect of the Bonda larghetest Stank, withing through the following office:

My 24,1967

O CHASE



quoted ex-dividend as from 18 July 1997.

Paying Agent: Bank of Bermula (Luxembourg) S.A.

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Les Echos

For the Establishment Trust, SICAV Bank of Bermuda (Luxembourg) S.A.

business newspaper. Les Echos, gives you a

Claridge-Israel, investment arm of the Charles Broniman family of have taken a minority stake Canada, yesterday paid its in a company and behaved first instalment of \$37m to like sophisticated financial Shamrock Holdings of the investors," said Mr Danny US for a 10 per cent stake in Biran, Claridge senior Koor Industries, Israel's biggest industrial conglomerate. are [considering] taking a Claridge will complete the \$187m payment for the stake in 90 days and decide whether to exercise an responsibility."

the concern. The drive to control Koor marks a strategic shift for Claridge from a leading pri- profitable investments in cess of privatising - the panies to an active player in which later became bench- stake in Koor.

By Avi Machils in Jerussiem a holding company that conmarks, including Teva, the trois about 7 per cent of pharmaceuticals company, ment in the government's an Israel's industrial output. "Up until now we would

vice-president. "This time we majority stake and we will be much more active in the company. It's a different option to buy Shamrock's The billionaire family

remaining 10 per cent of founded Claridge-Israel in Koor and de facto control of 1990 to invest in Israeli companies. It is headed by Mr Jonathan Kolber. Claridge has made several

ECI Telecom and Osem, the foods company. In 1991 Claridge bought 33

per cent of Osem for \$27m. It took the company public in 1992 and last year sold its stake to Nestlé, the Swiss foods group, for a profit of

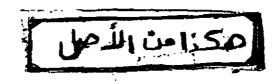
Mr Biran said Claridge has generated profits of between \$500m and \$600m in such

After announcing the deal bidding for Bank Hapoalim, israel's biggest bank, which the government is in the pro-

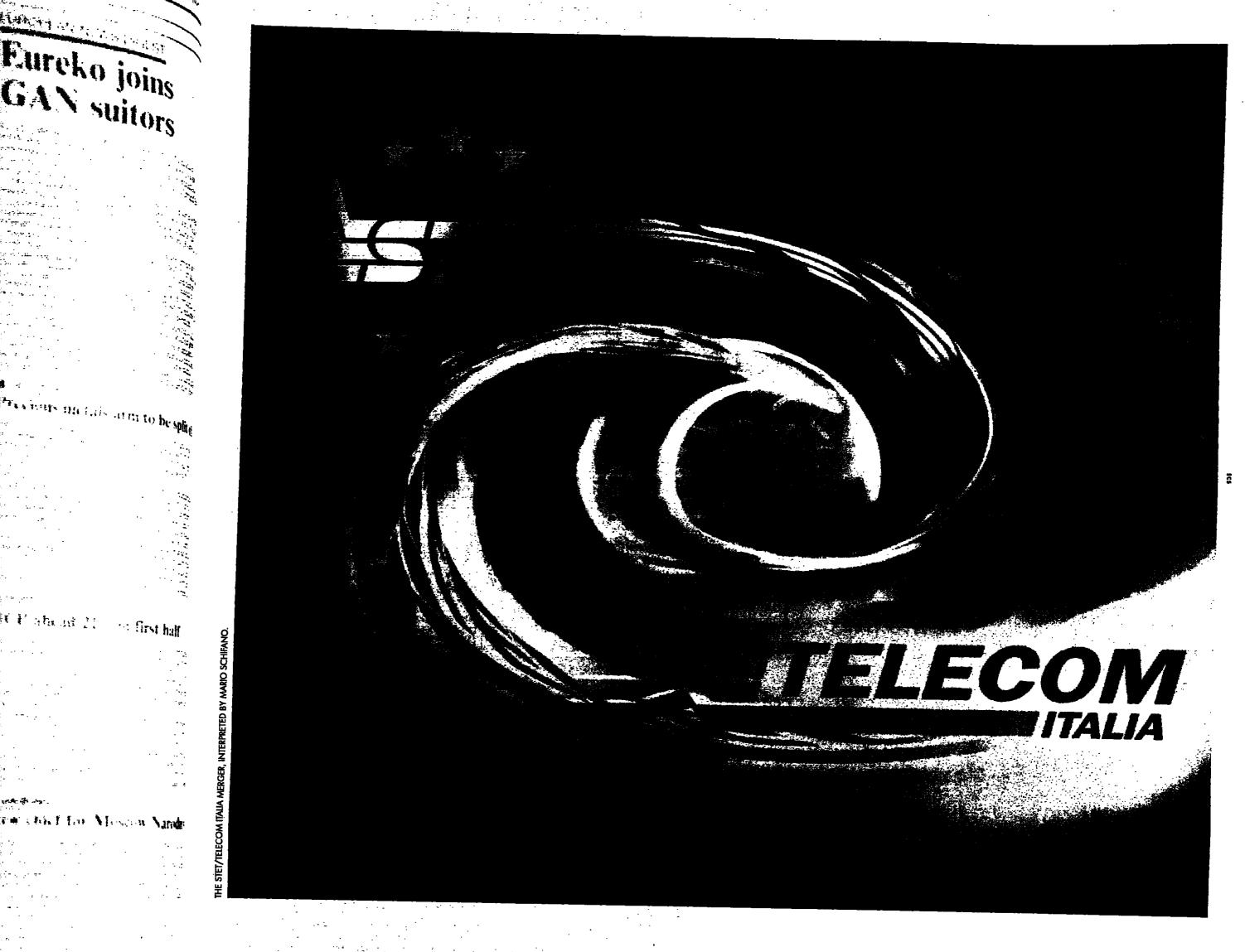
privatisation programme may not be over. Mr Keith Philips, Israel analyst at Société Générale, speculates Claridge may use Koor to acquire government companies slated for privatisation.

Claridge has not yet announced its strategy for Koor, but analysts believe it is not entering Koor to make a guick profit. "They are experts in find-

ing undervalued companies with Shamrock, Claridge and not being too aggressive pulled out of a consortium in active management," said one analyst. "Buying a holding company doesn't seem to fit in with that strategy, but Claridge probably has some vate investor in Israeli com- small Israeli companies bank owns a 23 per cent very impressive plans for



Eureko joins GAN suitors



July 1997. Now Italy's global telecommunications business has one name: Telecom Italia.

On July 18th 1997, the merger of STET and Telecom Italia was completed. From now on, Italy's global telecommunications business is represented by a single company. Telecom Italia. which combines the resources and operations of the holding company with those of its main operating company.

The Telecom Italia Group hits the ground running: it's the world's sixth telecoms company by revenues and, through its subsidiary TIM, is also Europe's

leading mobile telephony business.

Telecom Italia is looking to the future. With an eye to the ever increasing challenges of the global marketplace and the ever more advanced services which consumers demand. Telecom Italia is dedicated to becoming yet more competitive, without ever losing touch with the needs of its customers.

> Its aim: simply to communicate better, both at home in Italy and around the world.

Telecommunications in Italy and worldwide.

LEX COMMENT

Nationwide

COMPANIES AND FINANCE: UK

Carlsberg-Tetley ready to cut breweries

third-largest brewer, is set to said it would take urgent announce a drastic cost-cutting drive next month after ny's viability. its merger with Bass Brewgaret Beckett, the trade sec-

Analysts expect the comin Scotland and possibly the merger was blocked. Wrexham in Wales in a move to cut production costs. Some of the 20 distribution depots and other sites may also close, they say.

n the parlance of Grand

Metropolitan's boardroom, an "elephant" is a

problem too big to be men-

tioned. The director who

spots its presence is obliged

to bring it to the attention of

his colleagues, who must

For the past several

months, the elephant in the

boardroom of the UK drinks

group, and its would-be

merger partner Guinness,

has been Mr Bernard

Directors hoped the chair-

man of French luxury goods group LVMH, then a Guin-

ness non-executive, would

riminate quietly in the cor-

ner until their £24bn (\$40bn) merger to create the world's

company, GMG Brands, was

But with a string of highly

publicised moves, the Breton

entrepreneur has gradually

elbowed the merger partners

into talks atmed at including

brandy and champagne sub-

Mr John McGrath, the

chief executive of GrandMet

and chief executive desig-

nate of GMG, said once the

merger was consummated.

low-through deal with Moët

Hennessy, which distributes in 10 countries through joint

But Mr. Arnault pushed

to the back foot by identify-

ing mouth-watering savings

from an immediate three-

In an 18-page proposal last

week, he detailed savings of

up to £50m a year from com-

bining their international

drinks marketing and distri-

GMG could release further

value for shareholders by

simultaneously demerging

its food, fast-food and brew-

Mr Arnault argued, the

But the opportunity was

United Distillers.

ventures with Guinness.

sidiary, in their tie-up.

completed at the year-end.

Armault.

then confront the issue.

end up owning 85.1 per cent Carlsberg-Tetley, the UK's of Carlsberg-Tetley (CT), steps to enhance the compa-

In evidence to a Monopoers was blocked by Mrs Mar- lies and Mergers Commission inquiry, Carlsberg had warned that "there was a real risk that CT would pany to end brewing at Alloa enter a downward spiral" if It warned that it would not

be prepared to put further resources into the business, and operations would be scaled-down to concentrate The plan is being drawn on the Carlsberg lager and up after Carlsberg, the Dan- Tetley bitter brands.

leading wines and spirits John McGrath: fiercely resists Mr Bernard Arnault's proposals

"conglomerate discount"

worth some £1.6bn if the

Mr McGrath yesterday

flatly rebutted the sugges-

showed, he said, that the

parts of the business were

not worth more than the

whole. If they were, Grand-

Met would have demerged

Since he took charge at

GrandMet at the start of last

year, he says, the company

has reviewed each of its

businesses, and set itself a

target of doubling share-

holder returns from each of

open-minded about getting

he said, "In the last three

way combination of Moët years we have sold £1.5bn of £18.6bn quoted in London

International Distillers and Burger King, the fast-food This has been opposed by

every six months by advis-

ers, including SBC Warburg.

But Mr McGrath said that

until the opportunities that

will arise from Burger King's

international expansion are

GrandMet share price, he

ger to the board.

properly valued in the

Guinness says it has regu-

larly reviewed the argu-

ments for demerging its

game's not worth the can-

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registration or an applicable exemption from the registration requirements of such Act.

into and out of businesses,"

parts remained together.

Moët Hennessy, LVMH's tion. Exhaustive analysis

Guinness and GrandMet on them. "We are pretty

Hennessy with GrandMet's businesses." The future of

Vintners and Guinness's chain, has been reviewed

tled up with claims that could not recommend demer-

ing businesses. Specifically, brewing business, and "the

group would suffer from a dle".

GrandMet faces elephant

Ross Tieman on the boardroom battle over the proposed merger

been consummated, CT would have emerged as part of Britain's biggest brewer. Now it must choose a new strategy as a distant third, with 14 per cent of the market, against the 28 per cent of Scottish Courage and 23 per cent held by Bass.

Unlike its rivals, CT has no pubs of its own. It depends heavily for its profitability on an agreement to supply 1.85m barrels of beer a year at above-market prices to pubs owned by Allied Domecq.

That agreement expires in December. Under a new 10-

the collapse of the merger, Allied expects to save £42m (\$70m) a year, and take substantially lower beer volumes. Last year, on sales of £1.04bn, CT made pre-tax profits of £57m.

Details of the restructur-

ing will be presented to the 3,900-strong workforce by the chief executive, Mr Ebbe Dinesen, within weeks. In a letter to workers he warned that while the end of the Allied Domecq contract would "seriously affect our profitability" sales of the key Tetley and Carlsberg brands were up strongly this year.

in Guinness and GrandMet.

ness where the benefits of

Since Mr Arnault is now

set to hold about 12 per cent

of shares in GMG, he should

have a proportional share of

the merger benefits, Mr

Equally critical, "we need

to have a shareholding struc-

ture which is not disadvan-

tageous to Guinness and

GrandMet shareholders or to

the management of the com-

To date, most shareholders

have remained supportive of

the GMG merger proposal.

But after a series of stock

market raids, Mr Arnault

now commands a stake of

11.05 per cent of GrandMet

and 12.46 per cent of Guin-

ness. That gives him the right to call an extraordi-

nary meeting of either company to put his propos-

als directly to share-

Mindful of this leverage

directors of Guinness and

GrandMet are now searching

for a formula that will allov

their investors to reap some

of the benefits available

from a consolidation of Moët

Hennessy within their com-

bined International Distillers

McGrath suggested

But while Mr Arnault's for shares in the drinks busi-

ideas for demerger are

fiercely resisted, the benefits

possible from deeper collabo-

ration between the three

drinks businesses are not

Mr McGrath said recent

talks between GMG and Mr

Arnault had been designed

in part to see "if we could

find an arrangement by

The battle of wills is about

how the spoils will be divided, Mr Arnault has pro-

posed swapping his stakes in

Guinness and GrandMet,

together with his 66 per cent

share of Moët Hennessy, for

35 per cent of a merged

drinks business worth about

GMG directors on several

First, "assuming you could

bring together the three

spirits companies on a no-

premium basis, it is too com-

plex a management task to

do simultaneously with a

But the savings could pos-

sibly be achieved by a

merger within the GMG

be unfair to allow Mr

Arnault to exchange shares

structure, he believes. Even so, he said, it would

grounds. Mr McGrath said.

and Paris.

which we could achieve

these additional benefits".

disputed by GMG.

In evidence to the MMC, CT said its Alloa and Wrexham breweries were "not of optimal size" and the Alloa site was "significantly dependent" on the Allied Domeco pub estate in Scotland. "If the merger did not proceed CT would have to make significant reductions

in capacity," it predicted. Analysts say CT's Burtonon-Trent brewery is highly efficient, while its other two brewerles, at Leeds and Northampton, are essential to its brand strategy.

Some brokers believe CT may sell some of its lesser brands to rivals or regional restructuring

The first \$60m of proceeds from any divestment will be paid to Bass to cover its losses. The MMC inquiry was launched after Bass agreed last August to buy out Carlsberg's 50 per cent partner in CT, Allied Domecq, for £200m, and merge CT with its own brew-

ing operation. Bass is now expected to exercise its rights to sell the shares back to Carlsberg for

£110m, claim a £30m refund from Allied Domecq, and pass on 14.9 per cent of CT shares to Allied as well. tors were unequivocally pursuing conversion. So i ems that the mutual society has joined warm which people will fight to preserve.

The date of the proposed flotation of Formula One Holdings became more uncertain yesterday when its owner said: "No decision has ever been made with respect

ily trust which owns FOH. It means that while the issue is still not expected to be launched before late November, the date most even that estimate no longer has any force. From now on,

pany, which markets broadcasting rights for Grand Prix motor racing, said yesterday: "The date has to be driven by the deal, not the other

The statement said a pub-

was advanced as the likely date. That was later massaged back to November.

The regularly receding target, plus a series of embarrassing disclosures about extracurricular financial advice being given by investment banks due to take part The statement signals an in the share issue combined to give the impression of a project in disarray.

Salomon's investment banking rivals and other parties with possible designs on FOH did nothing to discourage that view.

Salomon was also surprised to discover twice within a week that Mr Ecclestone, FOH's chief executive, had been engaged in secret talks on potential rival or fall-back plans. Yesterday's statement was

issued by the lawyer advising a family trust of Mr Ecclestone's wife, Slavica. It said the company's owner had considered a number of "strategic alternatives" in consultation with Salomon.

It continued: "An initial public offering is my client's preferred course of action and progress is being made in preparing the company for flotation.

"My client has asked me to make clear that Salomon Brothers are the shareholders' exclusive financial adviser and any proposals ated by Salomon Brothers."

rates Nationwide promised as a continuing mutual society must be lower than the £2,000 members could have received from its conversion into a listed bank. And the maverick direc-

The resounding vote by Nationwide members

against a collection of col-

was a heartening vote

against greed. The present

value of the more gener-

ous mortgage/savings

ourful would be directors

beer and cricket as a symbol of a traditional Britain

But Nationwide and the small band of fellow building societies should not rest easy. The carpetbaggers have been repulsed, but only for the moment. After all, Nationwide is still comparatively inefficient and its ability to pay out beneficial rates is largely a reflection of its large amount of "free" capital. New arrivals, from supermar-kets to insurers, are pushing into an already crowded mortgage market offering more competitive rates. So it is doubtful that the mutuals are necessary to keep a banking cartel at bay. Besides, if mutuals are so marvellous, why did Nationwide want two years ago to merge with National & Provincial and become a bank?

So the war looks set to continue. A more credible raft of pro-conversion directors could easily be assembled. Furthermore, the government looks unlikely to hamstring carpetbaggers and the allure of potential takeover premiums will ensure they do not go away.

Ramco in agreed bid for JKX

By Robert Corzine

Ramco Energy, the Aim and American Stock Exchangelisted oil company, has agreed a £54m (\$90m) allshare deal to take over JKX. the troubled explorer with interests in Ukraine and

Georgia. The offer will be made on the basis of one new share for every 25 JKX shares. break into the Ukrainian That values JKX at 46.3p a share, against a closing price

of 47½p on Tuesday. JKX has proven and probable reserves of 89m barrels of oil equivalent, which includes natural gas.

Sir Robert Horton, JKX's non-executive chairman. said the company would bring "operating experience in Ukraine and Georgia" to the enlarged group.

But Mr Steve Remp. Ramwas issued on the initiative co's chairman and chief executive, made it clear that there was scope for substantial restructuring at JKX. "The history of JKX has been one of high spending,"

JKX was one of the first of the new generation of independent oil explorers and developers focused on the former Soviet Union. Although Mr David Robson, the company's founder. secured access to good production and exploration sets in Ukraine, the company never lived up to early expectations. Its attempts to natural gas market were dogged by political complications. Mr Robson left the

company earlier this year. Ramco wants to bring in a big oil company to operate the Ukrainian assets and to develop the operation in a bigger way than JKX envis-

Mr Remp acknowledged that the political situation in Ukraine was still complicated. But he said recent interest in the country from Royal Dutch/Shell and British Petroleum was a positive

development. He said preliminary contacts with possible partners had already taken place.

'No decision' on Formula One float date

By Clay Harris

to timing

effort to quell speculation over the planned issue and to dispel concerns about relations between Mr Bernie Ecclestone, FOH's creator and chief executive, and his financial adviser, the US investment bank Salomon Brothers. It was issued on behalf of the Ecclestone fam-

recently mooted by Salomon. target dates will simply not be discussed until a firm nnouncement can be made "in due course".

An adviser to the comway around."

lic offer remained the "preferred course" but did not exclude other options. The flotation plan has been bedevilled by a series of perceived delays. When the proposal was leaked in

said to be by the time of the British Grand Prix in early July. In June, with holidays tions unresolved, September over the float's publicity.

RESULTS

. 6 mths to June 27 23.6

Yr to Apr 30 570.7 Yr to May 31 219.6 6 miles to June 30 1,409

6 milits to June 30

ing __ 6 miles to June 30 fing __ 6 miles to June 30 ____ Yr to May 31 \rightarrow

Although the statement March, the target date was of the Ecclestone family interests, it is believed to reflect a shared desire with Salomon to demonstrate looming and several ques- fidelity and regain control

(20.7) (168.1)

(55.6)

(-) (450.9) (195.6) (1,438) (25.1) (4.04) (7.17)

(53.74) (66.64)

(438.3) (60) (-) (298)

58.9

219.5 1,409 23.9

company, without conceding too much to Mr Arnault. Abbrust Scotland _____ Yr to May 31 * 60.2 Damee _____ Yr to May 31 * 80.66 Reculsing American ___ 6 mits to June 30 523.5 Invesco Tolkyo _____ Yr to May 31 \$ 48.9 Schroder Emerging _____ Yr to May 31 \$ 48.9

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11 June 1997

Nationwide board wins vote for mutuality

By Christopher Brown-Humes and mes Blitz

Nationwide, the UK's biggest building society. yesterday won decisive backing for its plans to remain mutual after defeating rebel board candidates

Five existing board mem-bers gained about 70 per cent of the vote after a postal ballot in which 1.3m of Nationwide's 3.5m members took part. They defeated five dissidents whose pro-conversion campaign aimed to deliver windfalls worth up to £2,000 (\$3.340) to every member.

stunned observers who believed the rebels would fare much better against a hackdrop of massive speculation about conversion

relief, saying the vote was a clear endorsement of mutuality and a rejection of short-term greed. Many executives had feared the 220-year old movement could have disappeared if Nationwide had lost. Mr Brian Davis, Nation-

wide chief executive, said ing point" for mutuals and a victory for competition on About 950,000 Nationwide

members turned their backs

on a windfall, while the reb-

els each gained about

Pace

by a large margio.

Shares in Pace Micro Tech The victory margin

uncertain. Other societies expressed

the result was a "clear turnthe high street.

shares dip 15%

nology, the fallen star of last vear's new issues market. lost a further 15 per cent yesterday after the company reported annual results showing a weak second half and warned that the outlook for this year remained

Mr Peter Morgan, executive chairman, said the company – which produces receivers and decoders for satellite and cable television was facing continuing uncertainty in its main markets because of ongoing changes in the broadcast sec-

The shares lost 9%p to 53%p, less than a third of their price in last June's heavily oversubscribed flotation which valued the company at £386m (\$645m).

The shares, floated at 172p fell sharply after two profit warnings in quick succes sion this year. They have also been hit by the departure of one of the joint chief executives and the res ignation of the finance direc-

(2.75) (4.23) (0.28(4) (2.88) (1.16) (17.24) (18.2) (342) (1.8) (0.502) (2.37L) 4.08 11.1♥ 0.113L 3.56 1.08 40.6 18.4 333 1.77 0.625 3.08 (0.666) (0.701) (1.45) (0.052) 0.579 1.13 0.019 (8.32) 1.89 Earnings shown basic. Dividends shown net. Figures in brackets are for corresponding partod, 🌢 After exceptional charge. 🛡 After exceptional credit. 🖰 On increased capital

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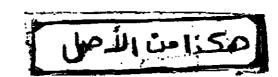


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parts of a cotton plant after har-

vesting and to put cotton threads

in the appropriate form for spin-

ning.
The machines promise to work

without sacrificing the quality of

the cotton, and could play a big part in increasing efficiency, par-

ticularly in the developing world

Thompson predicts sales of the

new gins, costing \$130,000 (£77,800) each, could be running.

at more than 1,000 a year by 1999,

with most of the manufacturing done under licence by specialised

companies close to cotton farms.

ideas, separating the seed from the cotton threads either through

a complicated system of rollers or

shearing mechanisms. But while

roller gins can work on high

grades of cotton with a long "sta-

ple" or thread, they operate fairly slowly, at perhaps half the speed

of the one tonne of cotton an

hour that the new process can

In contrast, saw gins work

much faster but because they

involve a shearing mechanism,

they chop up the cotton threads

into short lengths and are there-

fore not suitable for high grades

ever-deeper waters. But until

200m limit for divers has been

have solved the problem by

impossible. Engineers appear to

attempting laser welding through

the carbon dioxide laser forms a

beam," says William Deans, a

senior lecturer in Aberdeen:

"dry-tunnel"

of deen-water

engineering. Oil

phenomenon will

allow laser welders

THE JAPANESE WARRANT FUND

Société d'Investissement à Capital Fixe ("in liquidation") European Bank & Business Center, 6, route de Trèves

R.C. Luxenbourg B 31629 Pursuant to a decision of the Extraordinary General Meeting of shareholders held on 11 July 1997 the Equidation of The Japanese

Liquidation proceeds which have not been claimed by the share-

holders at the close of the liquidation shall be deposited with the "Caisse des Consignations" to be held for the benefit of the

The records of the Company will be kept at the offices of

Fleming Fund Management (Luxembourg) S.A. for a period of

FLEMINGS

Barclays Unicom Limited amounces that a Unitholders' Meeting was held on 23rd July 1997 in each Trust proposing a Scheme of Amalgamation of Barclays Unicom Leisure Trust and/or Barclays Unicom Recovery Trust and/or Barclays Unicom Special Signations Trust with the latter Trust to be the ongoing Trust. Additionally, for the Barclays Unicom Special Signations Trust, that the investment objective be changed.

consequence the name of the ongoing Trust, Barclays Unicom Spions Trust will become Barclays Unicom UK Growth Fund.

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Barclays Unicorn Special Situations Trust

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Barclays Unicorn Recovery Trust

persons entitled thereto.

July 1997, A.H. Doggart

Banclays Unicom Limited Gredley House 11 Broadway Stratford, London E15 4BJ

Bercleys Unicorn Limited

0181 522 4060

For further information please call:

Most gins use one of two basic

where cotton is a key industry.

And the Park State of the Parks

American des

Section 2000 and the second

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Freeze Park (1970)

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amco in agreed id for JKX

TECHNOLOGY

blow for lateral thinking among inventors of industrial machinery has been struck by a two-man team which has designed a radically new process for use in cotton production. Keith Thompson and Trevor Payne, a pair of freelance engineers who previously worked on projects as diverse as construction equipment and lift design. turned their hand to cotton production after a chance encounter with cotton farmers in Tanzania last year, From this followed a new design for cotton gins - machines used for the past 200 years to separate the textile and seed

faster than conventional gins. An early version of the cotton gire from left, Trevor Payne, Peter Hartill, chairman, and Keith Thomps

Tonic for gins

Peter Marsh on a new process that promises to improve cotton production around the world

of the material. Saw gins are basic engineering skills to "iden-widely used in the developing tify and then rationalise or world but are often highly meffidesign out" problems with the

Thompson and Payne say their system can be used for both high and low grades of cotton and can allurgists from the aerospace. be switched easily between them. Their design is based on a rotating horizontal disc which gathers cotton wool bundles with a enthusiastically by representaseries of leather pouches and tives of the large US cotton ginpasses the bundles passed a ming industry, which is to try out blade. This separates the thread bundles from the seeds which are channelled away for collection by .

an air stream.

existing mechanisms to come up with a new solution. The rotor was devised with the help of metindustry, while the main parts in the machine are simple to make.

Their ideas have been greeted an early version of the system over the next few months.

drawing board without any pre- people were different; they really Thompson says the pair used conceived notions and came up

with something totally unrelated to what's been tried before," says Scott Shepard, export sales manager at Consolidated Cotton Gin Company, a Texas-based company which is one of the US's big three cotton gin suppliers.

Praise has also come from Bill Anthony, an investment executive at 3i, which decided to back the invention just a few months after hearing about it. "We get presented with a lot of crackpot ideas where the inventors won't let the commercial benefits come "The designers went to the through," says Anthony. "These

paid £350,000 for a 30 per cent stake in Templeton Process Development, a Croydon-based company set up by Thompson and Payne to commercialise their ideas. Both men also have 30 per cent stakes, while Thompson is managing director and Payne is technical director.

ful and put into operation.

The UK investment group has

An early version of the system is being built in a factory in Nottingham. It is due to be shipped to the US next week for testing in a US government agriculture station in New Mexico.

Assuming the trials are successful, the machine will undergo further tests in a gin station in Arizona run by Anderson Clayton, a big US cotton services com-

pany. Tim Keilty, technical vice-president at the Phoenix-based company, says the design is "very innovative and has strong potential for the higher value end of the market," although it may still need some adaptation before it is ready for full exploitation.

There are thought to be more

than 35,000 cotton gins around the world, mainly in countries outside the main developed blocs. The US and Australia also have large cotton production indus-

Over the next year. Templeton plans to license manufacturing to probably five companies around the world. Of these one each would be in India, China and Turkey and another in the UK, while Shepard at Consolidated is talking to Templeton about a US manufacturing licence.

Thompson and Payne developed their cotton system on a shoe string. Leaving aside the cash injection from 3i, design costs so far have been only about £70,000 - including £25,000 from a Department of Trade and Industry grant to help small business

thickness of weld, says Dave Gibson, a welding expert from

in Aberdeen.

the National Hyperbaric Centre

The laser they are currently

using is about the size of a small

car and can weld 6mm steel. But

offshore structures are typically

25mm thick, which would require

a laser the size of a large lorry.

habitats which the lasers may

replace are already very large

Previous articles in this series on

However, it's not out of the

question, because the dry

Synthetic antibiotics

display.

7162734726;

As increasing numbers of bacteria develop resistance to conventional antibiotics, the search is on to find viable replacements. But many antibiotics have a complex structure that makes them extremely difficult to synthesise.

Biochemists at Stanford University may have found a way round this with the development of a technique that hijacks the antibioticproducing chemical pathways of bacteria, so that they produce a variety of new The work, which is reported

in the journal Science, uses genetically engineered enzymes to produce new types of polyketides, a family of molecules found in a number of

Worth Watching · Vanessa Houlder



plastic LEDs

performance of plastic

plastic-based computer

Technology Laboratory

which might lead to

of Rochester and

Researchers believe they have

made a breakthrough in the

light-emitting diodes (LEDs),

nonitors or television screens.

Hewlett-Packard's Solid State

managed to make plastic LEDs

LEDs, optoelectronic devices

able to convert electricity into

would be greatly extended if it

sharp and precisely controlled

University of Rochester: US, tel

light, are already widely used in simple electronic displays.

Their range of applications

proves possible to produce a

http://www.rochester.edu/

emit distinct patterns of light using lithographic techniques

developed for silicon chips.

Researchers at the University

GPS dishes the dirt on pollution Light shines on

properties.

The need to monitor and clean up contaminated land is intensifying, as governments try to encourage developers to find alternatives to developing greenfield sites. Scientists at AEA Technology in Oxfordshire have used Global Positioning Satellites to develop a system to improve the accuracy of contaminated land surveys.

antibiotic, immunosuppressant

create a library of thousands of

synthetic molecules that could

be evaluated for their medical

Stanford University: US. tel

http://www.stanford.edu/news/

and anti-cancer drugs. The

technique could be used to

The Groundhog system, which fits in a backpack or on a vehicle, receives information about its exact location from a GPS, while its radiation detectors take contamination readings. The data is integrated and downloaded into a Geographical Information System, producing detailed radiological contamination

AEA Technology: UK, tel (0)1235 434434; fax 01235 436656.

Tiny pump that regulates the dose

US scientists have developed a

miniature drug pump that might eventually simplify the life of diabetics by monitoring their glucose levels and pumping the right amount of insulin into their bloodstream. Researchers at the Case Western Reserve University have built a prototype of a pump that monitors its own flow rate and adjusts its pumping rate to ensure a steady stream of medicine. Although miniature pumps and sensors are already available. the researchers believe their pump will be one of the first "closed-loop" systems that can regulate themselves without external intervention. The device, has been tested in

the laboratory and is being scaled down so it can be mass-produced like a computer

Case Western Reserve University: US, tel 3013686519; http://www.czoru.edu/

Lasers in deep water

to make light work University's engineering department. "The laser heats the and gas finds are water to tremendous temperatures, 4,000°C, instantaneously vaporising it and now welding pipelines below the creating a penetrating tunnel of

superheated steam. corridor is formed, the light beam these are demanding conditions does not have to pass through the water and can weld steel." · The tests were done in a ·

an inch of sea water.
"We were surprised to find that hyperbaric chamber, where a very narrow column ahead of the in pressure of 500m of sea water can be simulated. Deans helieves the

been reported before and the basic physics remains to be

Currently, deep-sea repairs require "dry habitats" water-tight sheds pumped full of oxygen and helium gas so that "Once this millimetre-thick dry arc welding can take place. But, for divers to work in and their prolonged decompression times make it very expensive.

Robots are deployed on mmi-submarines to inspect and clean structures. But they cannot . Try turnel phenomenon has not : perform arc welding, mainly

FT WORLD

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FINANCIAL TIMES

because the very strong electromagnetic forces make the electrode difficult to control.

"With a light-based system, there's no force generated," says Deans, "A robot wouldn't have any difficulty guiding it round a welding job. The feasibility study was

funded by the European Commission. Deans and his colleague John Watson are considering development collaborations with a number of sub-sea contractors. One unresolved aspect is the

new uses for lasers appeared on April 24, May 8 and July 8.

Damian Carrington

CONTRACTS & TENDERS



THE REPUBLIC OF UGANDA

MINISTRY OF FINANCE

THE DIVESTITURE AND REFORM IMPLEMENTATION COMMITTEE DIVESTITURE OF APOLO HOTEL CORPORATION.

INVITATION OF BIDS FOR THE PRE-QUALIFICATION FOR THE INTERNATIONAL TENDER FOR PURCHASE OF GOVERNMENT SHAREHOLDING IN APOLO HOTEL CORPORATION

The Government of the Republic of Uganda (the Government) through the Divestiture and Reform Implementation Committee, facilitated by the Privatisation Unit, (PU), of the Ministry of Finance, hereby invites interested parties to participate in the pre-qualification of bidders, leading to the sale of Government's shareholding in Apolo Hotel Corporation

AHC is fully owned by the Government. AHC owns and operates a five star hotel in the City of Kampala, currently managed by the Sheraton Overseas Management Corporation (SOMC) and known as Sheraton Kampala Hotel (the Hotel) and an apartment building.

Legal Requirements

A bidder may consist of the following:

a sole entity or company, provided that such entity is a hotel operator.

a consortium, including a hotel operator.

Each bidder must submit:

identification of all the shareholders, and beneficial shareholders, that control more than 5% of its capital; statement that, since the date of the bidder's last audited reports and financial statements, there have not been any material adverse changes thereto; and

other statements as included in the Terms of Reference for Pre-qualification.

Technical and Quality of Service Requirements

The bidder, or in the case of a consortium, the proposed hotel operator, must provide:

A general description of the services offered and these shall include: a proven record of operating tourism facilities;

a proven record of financially successful management of a five star hotel, including occupancy rates, and after tax revenue per room;

certification of access to an international reservations system.

Details of the proposed management in the event of winning the tender.

Economic and Financial Requirements

The bidder must submit the following economic and financial documentation:

the two most recent audited financial statements:

the two most recent annual reports;

certification of most recent credit rating, or related documentation demonstrating ability to fulfill financial commitments relating to the purchase of shares and investment in the hotel.

Submission Procedures

The pre-cualification bids shall be submitted to the Director, Privatisation Unit, Ministry of Finance, P.o. Box 10944, Kampala, Uganda, before 3.00 p.m. on September 01, 1997, accompanied by a non refundable Submission Fee of five hundred dollars (US \$500), payable by bank draft to the Enterprise Development Project. A list of pre qualified bidders will be armounced by September 15, 1997. Interested bidders are requested to register their interest and obtain a copy of the Terms of reference for Pre-qualification by contacting the Director, Privatisation Unit, at the address below:

14 Parliament Avenue 6th Floor, LPS Building P.O. Box 10944, Kampala, Uganda Tel: 258-41-250108/256467 Fax: 256-41-259997 E-mail:pmu@imul.com

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Europe draws strength from US surge Life group in

By Vincent Boland and Greta Steyn in London and John Labate in New York

European bond markets moved smartly ahead in D-Mark was "a very powerearly trading yesterday, ful argument for high-yield after an overnight surge in US bond prices as investors concentrated on the positive aspects of the US economic summary presented by Mr

of the Federal Reserve. compounded by more Emuconvergence optimism, with considerable upside for highyielding bond markets.

Steams in London, said the combination of benign US inflation data, a rally in US Treasuries and bunds, a strong dollar and a falling convergence gains to extend even further from here."

ITALIAN BTPs were certainly of that view, and the spread over German bunds Alan Greenspan, chairman continued to drop, reaching 80 basis points yesterday for The markets closed off the a seven-point fall on the day. day's highs on profit-taking The strength of the lira but the cheerful tone was against the sliding D-Mark was one of several factors. and analysts said this raised analysts saying there was the prospect that the Bank of Italy might intervene or cut money market rates.

well off the day's high of 138.44.

SPANISH BONOS also hardened, with the spread over bunds narrowing to 63 basis points. The September futures contract settled at ton, international bond economist at HSBC, noted that in the current favourable environment for bond investors, markets like Italy and Spain benchmark markets tend to outperform".

FRENCH BONDS also ended off the day's highs, taking their cue from more unsettled bunds and the weaker D-Mark. The Septem-

European economist at Bear futures contract settled in settled in Paris at 131.02, up able. The September future rities, the two-year note was Stearns in London and the contract settled in Settled in Paris at 131.02, up able. The September future rities, the two-year note was London at 138.04, up 0.49 but 0.32, having touched 131.24. settled at 115%, up from a UK GILTS shrugged off previous 114%.

strong retail sales data which suggested the Bank of lowed US Treasuries higher, England would have to raise with the September future interest rates again to stave reaching a new contract off inflation. The market high of 103.58 before settling moved briefly weaker on the 118.23, up 0.25. Ms Ros Lif- figures before climbing to a nervousness, however, ahead contract high in choppy The bullish bandwagon set

in motion by Mr Greenspan helped the auction of £2bn of that "piggy-back on the 8 per cent gilts due 2021, which passed smoothly. slightly higher in morning There was a small "tail" the difference between the average bid and the lowest span's testimony. accepted in the auction -

New international bond issues

GERMAN BUNDS also folat 103.22. There was some of today's meeting of the Bundesbank council. Expectations are that monetary policy unchanged. will remain

US TREASURIES moved trading, awaiting the second

instalment of Mr Green-The benchmark 30-year which pleased traders. The bond rose % to 1022, yield-cover was 2.32 times, which ing 6.400 per cent.

unchanged at 100s, yielding 5.841 per cent, while the 10-year bond rose & to 108 yielding 6.114 per cent.

On Tuesday, financial markets rallied as investors found few clues in the Federal Reserve chairman's Humphrey Hawkins testimony that the Fed would raise interest rates in the near future.

Tuesday's gains were also sparked by a US Treasury Department report that the June budget surplus had reached \$54.5bn, which was well ahead of analysts'

Recent rising prices have kept the long bond yield at its lowest in seven months.

portfolio shift

By John Gapper, **Banking Editor**

Scottish Widows, the life fund manager, has switched £250m out of continental cash and bonds, because of fears about the potential over-valuation of shares. Mr Robin Garrow, head of

global strategy at Scottish Widows Investment Management, said the group, which manages a total of £24bn, believed markets in the US, the UK and Europe were now over-valued.

The move is further evidence of the fears of many UK fund managers that they could be caught in an equity market downturn. In spite of this, markets have continued to be driven upwards.

invested £1.5bn in continental European equities, believing there was greater potential for shares to outperform there than in the US and the UK. but it has now reversed

UK fund managers have gradually shifted portfolios out of US equities in the past year, although this has led assurance company and to them missing the most recent rise in the US market. The money has partly been European equities and into shifted into cash and bonds.

The most sceptical stance towards equities has been taken by PDFM, the fund Bank of Switzerland, which shifted out of equities in March 1995 and has since

been underperforming. Mr Garrow said Scottish Widows had believed European shares offered better relative value than the US, but it was now hard to identify value in the level of indices or individual shares. "We have not liked the US or UK for some time, but we did like Europe. It's getting Scottish Widows had harder to find a market where we are comfortable with values," he said. Scottish Widows has

reduced its continental European holdings by 15-20 per cent, leading to a £250m reduction in its holdings.

Step-down bond by Pemex raises L750bn

By Edward Luce and Greta Steyn

Pemex, Mexico's leading oil company, upheld its reputation for innovation yesterday with the country's first step-down bond. The L750bn offering, its first 10-year in lira, pays a coupon of 10% per cent until August 1999 and 7% per cent thereafter.

"We proposed this structure to Pemex on Monday and it executed the deal on Wednesday," said an official at DMG, book-runner with UBS and BCI, "There aren't that many borrowers who

are so decisive." Syndicate officials said the step-down structure had two main benefits. First, the high initial coupon would attract retail investors. Second. Italy's improving Emu prospects would appeal to instiwould benefit from higher priced as if it were Jordan's bond prices as Italy converged towards bunds ahead an official at HSBC Markets. of 1999. About 80 per cent of yesterday's issue went to institutional investors.

the deal, which was priced to yield 150 basis points over BTPs, allowed Pemex to borrow at a lower spread than on its US dollar debt. Pemex's 10-year US dollar benchmark is currently trading at a spread of 240 basis points over Treasuries. "Only the lira market can provide this sort of arbi-

trage," said one banker. Jordan's first "pure" eurobond was issued by JORDAN PHOSPHATE MINES, its largest foreign exchange earner. Jordan Telecom dipped its toe in the water in 1995 with a \$50m World Bank-guaranteed deal. Yesterday's \$100m five-

year floater, which is calla-

ble after three years, was both retail and institutional

sole book-runner, "Jordan Phosphate is comfortably the largest company in Jor-Officials pointed out that dan so this is a quasisovereign issue," he said. The bond, which was priced to yield 150 basis points over Libor, was

> UK and continental Europe. Proceeds will go towards the expansion of Eshidiya, the company's flagship mine. Jordan, which has a soveris expected to tap the eurobond market within a year. The AFRICAN DEVELOP-MENT Bank issued a Y30bn eurobond - its first subordinated debt issue in yen since 1993. The five-year issue. priced to vield 22 basis

points over Japanese govern-

evenly distributed to inves-

tors in the middle east, the

debut sovereign bond, said

Tennessee Valley Auth(a) American Express Credit Cp Jordan Phosphate Mines(b): (a1)R Nov 2025 -98.85R Aug 2002 0.50R 100.00R Aug 2002 0.75R 99.75R Jul 2005 1.00R 99.85R Jul 2005 0.50R +27(8)4Nov29 Lehman Brothers Intl +38(WI 5/r) Goldman Sachs Intl HSBC Markets +390(6)4/4-00) ANZ Investment Bank +250(6)4/6-00) Cradit Agricole Indosus 6.754 6.50 (b1) 9.5758 (c1)# | Morgan Quaranty Trust Co | 200 | 7.25 | 99.785F | Aug 2007 | 0.225F | +22(74Dec07) | Goldman Sachs Intil Morgan Quaranty Trust Co | 100 | 7.25 | 99.678F | Aug 2000 | 0.1875R | +14(8%Dec00) JP Morgan Securities | FRENCH | FRANCS | 200 | 5.75 | 99.00R | Aug 2012 | 0.45R | +190 | Société Carante GECC | 1.5bn | 5.625 | 99.807R | Aug 2019 | 0.355 | 4.190 | Société Carante GECC | 1.5bn | 5.625 | 99.807R | Aug 2019 | 0.355 | 4.190 | Société Carante GECC | 1.5bn | 5.625 | 99.807R | Aug 2019 | 0.355 | 4.190 | Société Carante GECC | 1.5bn | 5.625 | 99.807R | Aug 2019 | 0.355 | 4.190 | Société Carante GECC | 1.5bn | 5.625 | 99.807R | Aug 2019 | 0.355 | 4.190 | Société Carante GECC | 1.5bn | 5.625 | 99.807R | Aug 2019 | 0.355 | 4.190 | Société Carante GECC | 1.5bn | 5.625 | 99.807R | Aug 2019 | 0.355 | 4.190 | Société Carante GECC | 1.5bn | 5.625 | 99.807R | Aug 2019 | 0.355 | 4.190 | Société Carante GECC | 1.5bn | 5.625 | 99.807R | Aug 2019 | 0.355 | 4.190 | Société Carante GECC | 1.5bn | 5.625 | 99.807R | Aug 2019 | 0.355 | 4.190 | Société Carante GECC | 1.5bn | 5.625 | 99.807R | Aug 2019 | 0.355 | 4.190 | Société Carante GECC | 1.5bn | 5.625 | 99.807R | Aug 2019 | 0.355 | 4.190 | Société Carante GECC | 1.5bn | 5.625 | 99.807R | Aug 2019 | 0.355 | 4.190 | Société Carante GECC | 1.5bn | 5.625 | 99.807R | Aug 2019 | 0.355 | 4.190 | Société Carante GECC | 1.5bn | 5.625 | 99.807R | Aug 2019 | 0.355 | 4.190 | Société Carante GECC | 1.5bn | 5.625 | 99.807R | Aug 2019 | 0.355 | 4.190 | 5.190 | 4.190 | 5.190 | 4.190 | 5.190 | 4.190 | 4.190 | 4.190 | 4.190 | 4.190 | 4.190 | 4.190 | 4.190 | 4.190 | 4.190 | 4.190 | 4.190 | 4.190 | 4.190 | 4.190 | 4.190 | 4.190 | 4.190 | 4.190 | 4.190 | 4.190 | 4.190 | 4.190 | 4.190 | 4.190 | 4.190 | 4.190 | 4.190 | 4.190 | 4.190 | 4.190 | 4.190 | 4.190 | 4.190 | 4.190 | 4.190 | 4.190 | 4.190 | 4.190 | 4.190 | 4.190 | 4.190 | 4.190 | 4.190 | 4.190 | 4.190 | 4.190 | 4.190 | 4.190 | 4.190 | 4.190 | 4.190 | 4.190 | 4.190 | 4.190 | 4.190 | 4.190 | 4.190 | 4.190 | 4.190 | 4.190 | 4.190 | 4.190 | 4.190 99.898R Aug 2002 0.25R E ITALIAN LIRE Pernex 750bn World Benkill) 100bn B PESETAS (e) 88.95R Aug 2007 0.60R +150(sweeps) Deutsche Morgen Grenfell Zero 100.00R Aug 2002 0.15R - San Paolo//IP Morgen

eign debt ceiling of Ba3/BB-, investors. Book-runner Gold- bonds, and private clients man Sachs said the spread are also interested. The lack Mr Thierry de Longuemar, subordinated structure to placed five South Korean

the bank's treasurer, said the bank had opted for a • Standard & Poor's has keep its subordinated debt at banks on CreditWatch with 40 per cent of its total debt. "European and Asian fund

was unchanged after launch. of high coupon paper in yen has helped the issue," Mr De

119.81 153.10

185.79

0.12 0.43 0.90

119.66 152.45 184.14 213.67

negative implications. The US credit rating ment bonds, was aimed at managers have shown agency expressed concern healthy demand for the about the "deteriorating han Bank (A).

asset quality" and "heighten ing industry risks" of the Korean banking system. The banks affected by the

S&P review comprise Hanil Bank, whose current rating is A-, Korea Exchange Bank (rated A2 on short-term debt), Korea First Bank (BBB-), Korea Long-Term Credit Bank (A-) and Shin-

ytd

6.01 5 yrs 7.01 15 yrs 5.02 20 yrs

Swiss Re issues earthquake bonds

By William Hall in Zurich

Swiss Re, the world's second biggest reinsurer, has issued the first investment grade earthquake bonds. It has purchased \$112.2m of California earthquake reinsurance coverage by placing \$137m of two-year notes. The private placement was offered in several tranches with interest rates ranging

from 200 to 600 basis points

over comparable US Trea-

suries, depending on the

7.04 8.90 6.90

7.10 6.99 6.98

Jul 23 Jul 22 Yr. ago

tors lose one-third of their principal. If losses exceed \$21bn, they lose two-thirds and if losses are more than \$24bn, they lose everything. However, only holders of the \$60m of Class B notes risk losing all their investment. These notes have been

quake exceed \$18.5bn, inves-

rated Bal by Moody's, the US rating agency, and the less risky Class A notes, where only 60 per cent of the principal is at risk, have been rated Baa3.

-- Low coupon yield -- • Medium coupon yield -- High coupon yield --Jul 23 Jul 22 Yr. ago Jul 23 Jul 22 Yr. ago Jul 23 Jul 22 Yr. ago

7.27 7.09 7.14 7.91 7.16 7.22 8.09 8.94 7.02 8.11 7.05 7.12 8.18 6.88 6.97 8.19 7.02 7.10 8.23

— Inflation 10% — Jul 23 Jul 22 Yr ago

UK Indices

WORLD BOND PRICES BENCHMARK GOVERNMENT BONDS BUND PUTURES OPTIONS (LIFFE) DM250,000 points of 100% F7SE Actuaries Govt. Securities Day's Week Month change Yield sgo ago Price Indices UK Gifts Coupon Date Price change Yield 8go ago 10.000 10.077 125.8201 +0.850 6.50 8.88 7.02 5.625 07/07 104.8200 +0.970 5.56 5.85 5.85 6.250 08/07 104.8200 +0.20 5.56 5.85 5.85 7.250 08/07 109.8900 +0.280 5.91 5.86 6.15 7.000 08/07 107.2500 +0.210 5.03 8.15 6.15 4.750 03/02 100.7928 4.55 4.61 4.61 5.500 04/07 103.8100 +0.290 5.35 5.46 5.99 8.000 07/07 103.8000 +0.960 8.261 6.48 7.00 8.750 02/07 103.5000 +0.960 8.261 6.48 7.00 3.000 09/02 119.1677 +0.860 1.53 1.58 1.58 3.750 02/07 1,55 1,86 2,19 1 Up to 5 years (20) 2 \$-15 years (20) 3 Over 15 years (5) 4 Irredeemables (5) (LIFFE)* Lira 200m 100ths of 100% Sett price Change 138.00 138.04 +0.48 138.44 137.90 109.80 109.82 +0.41 110.10 109.62 III ITALIAN GOVT. BOND (STP) FUTURES OPTIONS (LIFTE) Lits 200m 100ths of 100% +0.200 +0.700 +7/32 +17/32 +19/32 +26/32 +26/32 +42/32 +0.200 Open Sett price Change High Low Est. vol. Open Int. 118.32 118.23 +0.28 118.51 118.18 78,729 95,813 +0.26 118.51 118.18 78,729 95,813 Sep Dec UK - Two year ... Three year ... 20 Per year ... 34 10-year ... 52 30-year Low Est. vol Open int. 115-07 126830 189198 Open Sett price Change High Oct 1-20 0-55 0-34 **BOND FUTURES AND OPTIONS** E ECU BOND FUTURES (MATIF) ECU 100,000 +0.32 +0.34 +0.34 131.24 99.98 99.36 130.94 99.74 99.36 139,338 210,702 1,108 5,567 2 -Open Sett price Change High ■ US TREASURY BOND FUTURES (CBT) \$100,000 32nds of 100% 5.02 4.02 3.02 2.02 1.07 Change +0-07 +0-08 +0-07 Low 401,531 476,285 8,227 35,141 194 16,257 Open Sett price Change High 103.52 103.22 +0.19 103.52 Low Est. voi Open Int. 213697 280679 943 10620 103.17 UK GILTS PRICES | Stantin | Alexan up to Five Vessey| | Intest Ext 70 | 1997 | 7.00 | 6.71 | 100 | | Intest 84 pc 1997 | 8.74 | 8.71 | 100 | | Each 195c 1997 | 8.74 | 8.72 | 100 | | Each 195c 1990 | 8.22 | 8.99 | 100 | | Intest 87 pc 1990 | 8.22 | 8.99 | 100 | | Intest 74 pc 1990 | 8.22 | 8.99 | 100 | | Intest 74 pc 1990 | 8.22 | 8.99 | 100 | | Intest 74 pc 1990 | 8.20 | 7.10 | 100 | | Intest 84 pc 1999 | 11 | 7.00 | 100 | | Intest 84 pc 1999 | 11 | 7.00 | 100 | | Intest 84 pc 1999 | 9.90 | 6.90 | 100 | | Intest 84 pc 2000 | 8.20 | 7.11 | 100 | | Intest 84 pc 2000 | 7.78 | 7.79 | 100 | | Intest 84 pc 2000 | 7.78 | 7.79 | 100 | | Intest 84 pc 2000 | 7.78 | 7.79 | 100 | | Intest 84 pc 2000 | 7.78 | 7.79 | 100 | | Intest 84 pc 2000 | 7.78 | 7.79 | 7.79 | | Intest 84 pc 2001 | 7.78 | 7.79 | 7.79 | | Intest 84 pc 2001 | 7.78 | 7.79 | 7.79 | | Intest 84 pc 2001 | 7.78 | 7.79 | 7.79 | | Intest 84 pc 2001 | 7.78 | 7.79 | 7.79 | | Intest 84 pc 2001 | 7.78 | 7.79 | 7.79 | | Intest 84 pc 2001 | 7.78 | 7.79 | 7.79 | | Intest 84 pc 2001 | 7.78 | 7.79 | 7.79 | | Intest 84 pc 2001 | 7.78 | 7.79 | 7.79 | | Intest 84 pc 2001 | 7.78 | 7.79 | 7.79 | | Intest 84 pc 2001 | 7.78 | 7.79 | 7.79 | | Intest 84 pc 2001 | 7.78 | 7.79 | 7.79 | | Intest 84 pc 2001 | 7.78 | 7.79 | 7.79 | | Intest 84 pc 2001 | 7.78 | 7.79 | 7.79 | | Intest 84 pc 2001 | 7.78 | 7.79 | 7.79 | | Intest 84 pc 2001 | 7.78 | 7.79 | 7.79 | | Intest 84 pc 2001 | 7.78 | 7.79 | 7.79 | | Intest 74 pc 2002 | 7.78 | 7.79 | | Intest 74 pc 2002 | 7.78 | 7.79 | 7.79 | | Intest 74 pc 2002 | 7.78 | 7.79 | 7.79 | | Intest 74 pc 2002 | 7.78 | 7.79 | 7.79 | | Intest 74 pc 2002 | 7.78 | 7.79 | | Intest 74 pc 2002 | 7.78 | 7.79 | | Intest 74 pc 2002 | 7.78 | 7.79 | | Intest 74 pc 2002 | 7.78 | 7.78 | | Intest 74 pc 2002 | 7.78 | 7.78 | | Intest 74 pc 2002 | 7.78 | 7.78 | | Intest 74 pc 2002 | 7.78 | 7.78 | | Intest 74 pc 2002 | 7.78 | 7.78 | | Intest 74 pc 2002 | 7.78 | 7.78 | | Intest 74 pc 2002 | 7.78 | 7.78 | | Intest 74 pc 2002 | 7.78 | 7.78 | | Intest 74 pc 2002 | 7.78 | 7.78 | | Intest 74 pc

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CURRENCIES AND MONEY

The D-Mark plumbs new depths

MARKETS REPORT By Simon Kuper

The D-Mark hit multi-year lows against several currencies yesterday, although it recovered modestly after the The D-Mark yesterday hit The D-Mark rose on late profit taking prompted partly by Ms Alice Rivlin, where the profit taking prompted partly by Ms Alice Rivling prompted partly by Ms Ali

the Fed had previously expected. That prompted of forex research at J.P. Morenthusiastic buying of US stocks and bonds, boosting the dollar.

Having and All Marketing at J.P. Morenthusiastic buying of the collar and pound buying was mainly due to purchases of

The US currency had European monetary union will start on schedule. The market believes that Emu will produce a soft euro, because many of the qualifying countries could have weak fiscal positions. France

entry criterion for Emu, and

dollar since August 1991 at might not rise much more The German currency DML8325, its lowest against Late yesterday the D-Mark went into free-fall on Tues the pound since September was at DML8290 to the dollar day night after Mr Alan 1989 at DM8.0878, its worst and DM3.0660 to the pound. Greenspan, chairman of the Federal Reserve, said the US economy was growing faster and inflation was lower than franc since last August. Mr Avinash Persaud, head

US and UK stocks and already had a strong week bonds, and to hedging by thanks to growing belief that companies against possible 보꾸

budget deficit for this year cies, rather than to a convic-would probably exceed the tion that they would go on tion that they would go on climbing.

recovered modestly after the The D-Mark yesterday hit vice chair of the Federal London close as traders took its lowest level against the Reserve, who said the dollar That was respectively 1.6 pfennigs and 2.7 pfennigs below Tuesday's London close. But most of the D-Mark's slide had come late on Toesday directly after Mr Greenspan's Humphrey-Hawkins testimony in the

> ■ The Swiss franc, Norwegian krone and Swedish beneficiaries of the D-Mark's decline. Mr Persaud said this was because these currencies were seen as safe havens from the feared weak euro. Also, forex strategists



vian economies were gaining NKr4.1010 to the D-Mark, up from NKr4.125 on Tuesday. gan Grenfell in London, Thai-based corporation warned that Switzerland, the UK and Italy had little desire to see their currencies soar against the D-Mark. But the tect themselves against f market was testing the central banks' tolerance limits.

■ The Thai baht plunged again yesterday, taking other south east Asian currencies down with it. The region's central banks hope to calm the market when they meet in Shanghai

The baht closed yesterday at Bt32.35 against the dollar, down from Bt30.95 on Tuesday and well below the cur-

D-Mark from SKr4.301 on Tuesday, and the Swiss franc was 0.35 centimes stronger at SFr0.8135 to the German currency.

Most selling was by loca estimated to have a total HS\$60bn in unhedged forei debt, bought dollars to p ther declines in the ba The Malaysian ringgit, Sh apore dollar and Indones rupiah also fell.

Many of the region's co tral banks are no long thought to have enou forex reserves to suppo their currencies. Ba Negara admitted on Tuesd that it had spent 12.5 p cent of its reserves defer ing the ringgit in the fir

half of July. meeting would probably for short of a commitment should expect only a stron ly-worded communiqué

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Sweden (SKr) 48.19 8.884 7.867 2.333 0.885 2268 2.828 Switzenland (SRr) 25.39 4.891 4.145 1.229 0.456 1195 1.384 UK (2) 63.45 11.70 10.36 3.072 1.139 2386 3.460	9.572 285.6 196.5 10 1.896 0.759 1.768 1.277 147.9 1.177 5.044 124.1 103.5 5.289 1 0.400 0.829 0.673 77.32 0.820 12.60 310.2 258.7 13.17 2.499 1 2.322 1.881 194.7 1.550	PRIVATE CLIENTS TEL. 0171 629 1133 EAX: 0171 495 0022
Canada (CS) 27.33 5.039 4.462 1.323 0.490 1286 1.490 USA (S) 37.74 8.958 6.162 1.827 0.677 1776 2.058	5,429 133.8 111.4 5,672 1,076 0,431 1 0,724 83.88 0,668 7,497 184.5 153.9 7,832 1,486 0,595 1,381 1 115.8 0,922	AA - J J- F
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Mar - 0.5555 -0.0016 - 0.5582 33 544	Mar - 0.8967 70 222	UNION TAX-SHOP LTD For all your tax and self- assessment needs
Sep 0.6796 0.6754 -0.0034 0.6796 0.6745 14,338 53,887	Sep 1.5788 1.6794 +0.0036 1.8882 1.6746 6,540 64,547	Tax Returns from 250 TEL: 0345 585573 / FAX: 0345 573376
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RBS in talks to acquire Midshires

By Christopher Brown-Humes

Royal Bank of Scotland is in detailed talks to acquire Hirmingham Midshires, the UR's fifth largest building society. A price tag of about £650m is being discussed.

A deal would provide Midan average windfall of more than £500 – much lower than recent pay-outs from converting societies such as Halifax and Woolwich.

mutuality, it would be a gers" in the last year. Earlier per cent on 1995. was celebrating brighter suspended new account prospects after Nationwide members decisively voted launch a new set of against conversion to a bank. But it would give RBS interest rates, but they will presence south of the border rights necessary for a shires' 1.2m members with it has long coveted. Finalisation of the deal is believed to be some weeks away.

blow to the sector just as it this week, the society openings. On Monday, it will accounts, with identical windfall

Midshires has 115 branches in the Midlands, Intense speculation has the south-west and surrounded Midshires for 18 north-west. It has assets of prefer to be acquired by a months, leading to an influx about £7.7bn and last year listed company.

If Midshires abandoned of some 300,000 "carpetbag- made profits of £70.7m, up 13 Mr Mike Jackson, Mid-

shires chief executive, said earlier this week it was "not for sale and no decision had been taken on a change in corporate form". But the some of the enhanced retail not carry the membership society has also said its adviser, JP Morgan, was exploring options, including possible flotation or sale. Many analysts believe it is too small to float and would

a deal with RBS would give it greater independence, permitting brand retention and avoiding the heavy branch closures that an agreement with an English competitor might entail. Such an arrangement would be simi- to achieve a nationwide preslar to Bank of Ireland's ence £600m purchase of Bristol &

RBS has made no secret of its ambitions to gain more customers through a variety of distribution channels,

Midshires would hope that including Direct Line and its personal finance link with

> The bulk of its branch network and customer base is north of the border. It might see the purchase as a platform for further acquisitions

Midshires would only confirm that it talked to the bank about the launch of a joint credit card later this year. The bank would not

£15.5m (£12.6m) put the

Guinness and **GrandMet** defend plan

By David Blackweil

Guinness and Grand Metropolitan yesterday If he were to go to 25 per launched a robust defence of their original May 12 plan to create a £24bn food and drink conglomerate.

Mr Bernard Arnault, the French businessman trying to derail the plan, had made all the running with a series of highly publicised moves. including resignation from the Guinness board on Monday. But analysts yesterday thought the two UK groups were firmly back on the front foot, the day after Mr Arnault arrived in the City to start a charm offensive on institutional investors.

"They seem to have turned the public relations battle in their favour," said one analyst_"They have shot down a lot of the claims made by LVMH about added value." They have come in hard and said the arithmetic does not work," said another. "The story was clear - they were not going to talk about demergers and were not prepared to pay a premium for Moët Hennessy."

Mr Arnault, chairman of LVMH the French luxury goods group, is campaigning for a three-way drinks that includes LVMH's Moët Hennessy. By reducing his stake in Guinness to 12.5 per cent, he has built up his GrandMet holding to more than 11 per cent, and is the biggest single

shareholder in both groups.

GrandMet stake further is subject to much speculation. cent he would be able single handedly to stop the scheme of arrangement under which Guinness and GrandMet shares will be swapped in order to create GMG brands. "If we find that there are rocks in the road, we will drive round them," said Mr Philip Yea, finance director designate of GMG. This implied that the two groups would change the scheme of

arrangement if necessary. Any change would subject the new group to stamp duty of about 265m. That would probably be considered immaterial in the context of the overall benefits to be had although other problems are likely to surface over a

25 per cent minority holding. Institutional investors do not want to see the situation get too confrontational. The more conservative are particularly keen not to lose the gains in both shares since the merger was announced although LVMH itself would

be the biggest loser. However, Mr Arnault is not without support. One institutional investor yesterday said GMG would end up with "a rag-bag collection of consumer interests" that would dilute the value of the Guinness brands. "I would be prepared to tolerate that only if Moet Hennessy was brought into the picture."

Railtrack and Jarvis settle pricing dispute

Railtrack and Jarvis, the construction group which maintainance functions, said ferences over pricing with within hours of their row becoming public.

Railtrack said Jarvis had agreed to revise its estimates agreed" and that they looked for certain track maintain- forward to "continuing their

argued its prices were up to six times higher than those of other contractors for similar work. Railtrack had has taken on extensive track threatened to suspend Jarvis from bidding from work on they had resolved their dif- other building projects unless it cut its prices.

The companies said yesterday that "a process for resolution of this issue has been ance work after Railtrack constructive relationship".

Pendragon pays Lex £44m for 17 franchises

By Christopher Price

The consolidation of UK car dealerships moved up a gear yesterday when Pendragon agreed to buy 17 franchises from Lex Service for £44m (\$73.5m).

The deal will make Pendragon the largest car dealer in the UK and marks a significant move by the com-pany into the "volume", mass-market, car

Pendragon will fund the deal through a £56m 4-for-7 rights issue at 265p. Shares in the group fell 35p yesterday to 313½p.

The company also ments with Ford and Vauxhall, which between them This would require £52m of investment over the next three years.

Mr Trevor Finn, chief executive, said the creation of "major market areas" echoed the development of car retailing in the US.

same brands in the same areas destroys profits. The manufacturers are at last replaced. realising that," Mr Finn

By Robert Anderson

bought by its management

sold to BI Group for £93.6m.

ham Wagster, finance direc-

tor, owns just over 20 per

cent of the equity, and will

BI, a specialised engineer-

Kuwaiti-listed National

Industries Corporation, is

offering 1960 a share in

cash, a 25.6 per cent pre-

receive about £19m.

Cortworth's management, led by Mr Bill McMurray, chief executive and Mr Gra-

The National Franchised Dealers Association said intense competition had led to the number of franchisees falling by about 10 per cent

to 6,000 in the past year. The 17 franchises made profits of £3.4m, down 35 per cent, on sales of £349m in 1996. Mr Finn said Pendragon's similar set-up with Volvo had led to improved margins through economies

of scale. Mr Andrew Harrison, chief executive of Lex, said the company was leaving vol-ume car sales because of poor returns.

He believed the market. where new car sales rose just 2 per cent last year, would continue to struggle against the luxury, or speown 14 of the franchises. cialist, market, Lex would now concentrate on its specialist dealerships and leasing, and diversify into other areas such as servicing. Shares in Lex rose 21/1p yes-

terday to 403p.

The rights issue is being underwritten by Merrill "Competition between the Lynch, which was yesterday appointed stockbroker to Pendragon after BZW was

price. There is a loan note

value when floated in 1995.

Analysts said the price

had weakened partly because investors had been

disappointed that acquisi-

tions had not been made.

The group has underper-

formed the engineering sec-

In 1996 Cortworth made

turnover of £67.2m. Its year-

end net assets were £25.5m The acquistion is BI's first

since it was taken over by

tor over the past year.

alternative.

BI buys Cortworth

engineering company above Cortworth's £71.6m

from Williams in 1993 for but about its market peak in £40.3m (\$67.3m), is to be April 1996.

ing subsidiary of the pre-tax profits of £10.1m on

mium to Thursday's closing NIC for £96.3m last year.

in £93.6m deal

Sitting comfortably: Andrew Harrison (left) with Sir Trevor Chinn, Lex Service chairman

Both Pendragon and Lex Service produced firm increases in profits yester-day as the motor dealership groups announced their divergent strategies.

Pendragon, which is adding Lex's volume business to its luxury car dealerships, increased half-year pre-tax profits by 14 per cent to 96.66m. Sales rose 29 per cent to

£369m. Lex increased pre-tax profits by 10 per cent to £30.5m on turnover slightly down at £777.3m (£81,2m). In the reverse to Pen-

trating on distribution of higher-margin specialist The fall in sales reflected Lex's disposal of some other volume franchises, a strat-

dragon, the group is concen-

of Mr Andrew Rarrison as • COMMENT chief executive.

olume switch for car dealers

Operating profits from the retail business fell 20 per cent to £8.9m. In contrast, profits from vehicle leasing rose 17 per cent to £10.5m. There was also a 14 per cent increase, to £6.6m, from the forklift

truck division. The group's Hyundai dealership almost trebled profits to £3.6m. Earnings per share rose 12 per cent to 19.1p. The

interim dividend is increased 6 per cent to 6.8p. Pendragon's figures were lifted by strong performances from its Jaguar and Volvo franchises.

In addition, sales of Fiat cars, where the group has the greater London franchise, were also

Earnings per share egy embarked upon a year increased 16 per cent to ago with the appointment 11.8p.

shares on a prospective p/e Pendragon's reputation for of some 13 times. This is a 15 sure-footedness looked a per cent discount to the marlittle shakey after yesterket and looks about right. The deal holds out day's deal. True, the development of large market areas brighter prospects for Lex. It has worked well for dealers is left to concentrate on in the US and for its UK higher margin business rival Reg Vardy. Pendragon while the development of newer businesses, such as repairs and servicing, looks promising. Proceeds from the deal, together with the has taken the canny step of agreeing large area monopolies with the manufacturers supplying its new franchises. sale of part of its stake in a But this cannot disguise the fact that sales in the volume Taiwanese venture, will wipe out debts over the next car market are soggy and industry forecasts hardly year. With the remainder of encouraging. Pendragon will the Taiwanese investment valued at £120m, speculation rightly argue that it should be able to extract higher about a share buy-back or special dividend appears jusmargins from the Lex purtified. Pre-tax profit forecasts chase through its monopoly position, tighter controls and of £58m put the shares on a economies of scale. But until forward p/e of about 10. While the challenge for Lex the volume car market itself shows signs of recovery, the is to put together a conbenefits of the deal are likely sistent run of results, the to be overshadowed. Pre-tax rating looks somewhat

profit forecasts of about harsh.

	Teracy	er (2)su)		tax it (2m)	P.	S (p)	Current payment (p)	Data of payment	Dividends Corresponding dividend	Total for year	Total la
Hearts fr to May 31 Lex Service 6 miles to June 30 Pendiranon 6 miles to June 30	4.92 777.3 369.1	(4.34) (812.1) (286.5)	1.54L 30.5 6.66	(2L.) (27.7) (5.85)	25.5L 19.1 11.8	(34.1L) (17) (10.2)	6.8 3.6	Sept 4 Aug 29	6.4 3.3	:	16 9.9
knvestment Trusts	KA	((d)		pojable gs (201)		i (p)	Corrent phyment (p)	Date of payment	Corresponding dividend	Total for year	Topal las year
Barley Tribute * 6 miles to June 30 City of Oxford	525 195.31 44.25 302.7	(457.5) (-) (165.83) (-) (276.8)	2.87 1.53 0.875 3.89	(2.2) (-) (1.44) (1.05) (4.19)	5.5 3.02 0.74† 4.3	(4.29) (-) (2.97) (1.84) (4.63)	22 1.3* 22 0.875* 2	Sept 15 Aug 29 Aug 29 Aug 29 Sept 26	2 1.3 2.2 1.75 1.95	- - - 3.8	7.8 5.6 5.3 7.2 3.65
very & Sinne leis 6 mits to June 30 Scottish Mational 9 mits to June 30 Templeten Emerging Yr to Apr 30	193.1 110.3 154.77	(166.6) (80.4) (137.96)	0.02 11.3 7.44	(0.167°) (10.3°) (5.8°)	0.09 7.1 1.77	(0.72) (6.5) (1.44)	2 1.1	Oct 7 Aug 27	- 2 1	1.1	8.6 1

*Comparatives restated. * Excludes special 1.2p. *Amount payable to both ordinary and income shareholders under new capital structure. \$Third interior; makes 5.6p to

INVESTORS IN PROPERTY AND SECURITIES

PROFIT UP

INCREASED DIVIDEND

Extracts from the results and from the statement by the Chairman, Mr. A. R. Perry.

- Revenue profit before tax rose from £15.5 million to £16.0 million.
- Net property income up from £22.4 million to £23.2 million.
- New property investments acquired.
- Development programme continuing. Group property investments up from
- £310 million to £337 million. All interest written off against revenue.
- Net asset value rose to £1.82 per share.
- Total dividend increased from 6.0p

Results for the year ended 31 March 1997 £000's 1997 1996 Investment property rents 25,353 24,983 Net property income 22,399 23,230

15,475

210,131

16,618

217,565

Ordinary dividend per share 6.Qp 6.5p Copies of the full statement may be obtained from G. H. Caines. Managing Director, PSIT plc. Fetcham Park House, Lower Read, Fetcham, Surrey, KT22 9HD.

Revenue profit before tax

Shareholders' funds

NEWS DIGEST

R Dutch/Shell in electricity deal

Royal Dutch/Shell has signed an agreement with Bechtel, the US engineering concern, to negotiate the purchase of a 50 per cent stake in International Generating Company, Bechtel's power generation subsidiary.

The move is part of Shell's plan to expand its interests in electricity over the next five years. Its Shell International Gas offshoot is aiming to complete negotiations by the end of September. Shell declined to comment on the possible price of the acquisition.

The company already has power projects in Peru, Namibia and the Philippines.

International Generating is a leading global developer of power projects. It has four plants under construction in the UK, Mexico, Colombia and the Philippines, with a proposed combined output of 2,145MW.

In addition, the company has seven contracts or mandates for developing an extra 4,275MW of capacity and is also pursuing a further 20 schemes with a total capacity Stefan Wagstyl

Britannia bids for BB&EA

As foreshadowed this week, Britannia Group yesterday launched an agreed offer for British Building & Engineering Appliances, its rival construction services company. The bid of 75p cash a share values Essex-based BB&&A at about 58.4m. Britannia aiready holds or has acceptances representing 55.25 per cent of its target's

Britannia, cash-rich following the £10m sale of its housebuilding division in July last year, has been seeking a purchase to complement existing activities. Mr Christopher Powell, chairman, said that as part of a larger group, BB&EA would be in a better position to maximise the value of its businesses, which would be reviewed at an early stage to assess their potential.

BB&EA has swung in and out of profit since being demerged in 1992 from BM Group, the engineer now known as Brunel Holdings. It reported a modest pre-tax profit of £24,000 on sales of £18.2m for the six months to

BB&EA shares firmed 2p to 721/p, while Britannia hardened 2%p to 32%p. Henry Ansbacher is acting for Britannia; BB&EA is advised by Albert E Sharp. Brunel yesterday announced the sale of its Titman Tip

Tools subsidiary and its German offshoot to Howle Holdings for £2.15m cash, including repayment of inter-company debt. Brunel said the deal completed its disposal programme, begun some 18 months ago. Howle is funding its move through a placing and open offer of 8.29m shares on a 3-for-7 basis at 260. Graham Deller

Avocet placing to raise £5.4m Avocet Mining has conditionally allotted 3.25m ordinary shares by way of a private placing at 165p to raise about

The proceeds of the placing, which involves shares representing less than 10 per cent of the existing capital, will be used to repay certain outstanding loans and provide working capital

The directors said the group's working capital forecasts assumed a rise in tungsten prices and a "successful rescheduling" of a number of loan repayments. Failing either of these, a further fundraising exercise or "alternative sources" of working capital might be required. Avocet's shares fell 8p to 168%p yesterday.

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"Multi Asset Monte Carlo Analysis" MBRM provide the most widely us analytical hoofsts, financial calculate emaryocan coords, financial calculators, athranced derivative portfolio analyses, source code, consultancy, and risk munagement training. Fully integrated with Excel, Visual Basis, C and C++. Mandoth Saretat Risk Management (Financial Systems Software (FSS) Ltd) Established 1988 - 10,000 users globally Warmford Court, Throgmorton Saret Losdon ECON 2AT +44 171-625 2007 +44 171-628 2008 alt: Iss@mbrm.com

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FINANCIAL TIMES THURSDAY JULY 24 1997

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LONDON STOCK EXCHANGE

Footsie's rise checked by retail sales surge

MARKET REPORT By Peter John

There was only one direction for said "producer prices have fallen London equities after dealers in each of the past six months" came in to work to face a new but "economic activity is on the record high on Wall Street.

The Footsie kicked in yesterday morning with an opening the nation". rise of 55.4 points and moved forward smartly to show a gain of almost 85 points by mid-morning. The Dow Jones Industrial

Average had jumped 154.9 points on Tuesday when Mr Alan Greenspan, the US Federal Reserve chairman, gave a speech reinforc- for almost five years. ing the view of a "goldilocks economy".

inflation and why the situation 1989. might continue for some time. He rise . . . in virtually every geographic region and community of

Initially, therefore, there was scant reaction to the latest survey from the British Chambers of Commerce (BCC), which pointed out that exports for manufacturing and service sector companies had fallen to their lowest levels

The report coincided with

And there was a concrete example of the sterling effect. Reuters, the news and financial information group, announced figures that showed interim profits down 8 per cent before the currency hit was stripped out but up 13 per cent afterwards.

In contrast, retail sales figures - driven by building society rising more than a point. windfalls - came in well above the market's consensus and highlighted the growing chasm between the corporate winners and losers.

Mr Michael Saunders, UK econincreased strength in the pound, omist for Salomon Brothers, said Dow shot up 73 points in the first shares by 6pm.

He underlined why the US was which was standing at its highest the Chambers of Commerce fig. 15 minutes of trading to send it 2,250 seeing robust growth with low level against the D-Mark since ures probably would not stop comfortably through 8,100, pro-

> strength of consumer demand. By the afternoon, the impact of He suggested, however, that a weak picture painted by today's CBI industrial trends survey make itself felt. Footsie's rally might at least damp some of the worst inflationary terrors.

Long-dated government bonds ignored the data, reacting instead to Mr Greenspan's comments and Derivatives traders did their

best to cool the Footsie's rise by going up." restraining the Footsie future contract to a small premium to the underlying cash market. At the New York opening, the

of the stock."

Monday when it said Mr

Brian Staples, the chief exec-

utive, was to leave. NatWest

Securities told clients the

announcement represented

"a watershed in the group's evolution". Mr Robert Miller-Bakewell

at the broker said the

announcement contained "a

thinly veiled profits warn-

ing" on current trading. He

has moved his stance from

Buyers returned to the

retail banking sector sending

individual shares souring

and helping to boost the

retreated sharply over the

past few days as dealers took

the view that a sector which

had strongly outperformed

the overall market for most

Banking issues had

"add" to "hold".

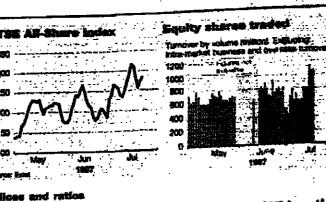
market as a whole.

base rates rising again given the viding some brief upward momentum for London.

> the day's economic data began to ran out of steam and the rise was cut to a net gain of 27.8 at 4.874.5. Mr Philip Wolstencroft, UK

economist with Merrill Lynch. commented: "The market has looked at these figures and worked out that interest rates are

The FTSE 250 closed 20 up at 4.481.8 and the SmallCap ended the day 1.6 better at 2,190.6. Overall market volume was 867.5m



SE 250 44 SE 350 21 SE All-Share 226	374.5 +27.8 181.8 +20.0 138.2 +12.8 12.67 +11.78 3.40 3.41	FT 30 30:80 0 FTSE Non-Firs Fre 19.44 FTSE 130 Fut Sep 4:45.0 10 vt Git yeard 7 00 Long gat/equity yid ratio 2.00	•15.1 19.1 •17.5 7.0 2.0
Insurance	+2.6 +1.7 +1.4	Worst performing sector 1 Gas Distribution 2 Alcehole Severages 3 Building & Construction 4 Extractive Inda 5 Tobacco	0.

Ofgas concerns hit BG

By Martin Brice and Joel Kibazo

BG was the most heavily traded stock in London with 41m shares changing hands with Ofgas, the industry reg- return capital to sharehold-

Ofgas departed from the recommendations of the Monopolies and Mergers However, the dispute is not £700m. seen by analysts as on the same scale as previous spats.

Mr Steve Turner at HSBC James Capel said: "A cloud has emerged in what was expected to be a blue sky." However, he remains a firm 2911/2p after it told the buver of the stock, seeing it annual meeting that the as a genuinely cheap utility.

Mr Andrew Wright, at Merrill Lynch, said while there was no problem in purely financial terms, the proposals "raised the issue of regulatory uncertainty when it looked as if it had

The volume was the heaviest in BG since November 138p to 169p after Ofgas and BG agreed proposals for controlling domestic gas prices.

The strength of the pound

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among stocks exposed to overseas earnings. Reuters was down 11 at 5981/4p after the media group highlighted the issue in its interim profit

statement was down 3 per cent but up strike costs, currency and 12 per cent before the effect of currency. First-half profits came in at £333m, down from £342m and just under most

forecasts. Analysts took some small comfort in news of the £200m share buy-back. But fears of a deterioration in the sum is substantially less the company's relationship than the original plan to

NatWest Securities told that a £700m buy-back would Commission when it pub- be needed to enhance earnlished its detailed price con- ings. Analysts were said to be trol proposals for BG's downgrading full-year fore-Transco pipeline business. casts slightly, to just under

> Elsewhere in currencyaffected stocks, BICC was down 5 to 1621/p, and Glywed International was off 7 to 202p.

Courtaulds shed 6% to translation of overseas earnings into the strong pound in the first quarter had "left profit before tax a little below" the same period last year. And British Steel eased a penny to 155%p after the company cited the damaging effect of currency in a cautious AGM statement.

The bulls gained the upper when the shares rose from hand in British Airways although UBS, the house broker, downgraded currentyear profit expectations following a similar move by was again taking its toll Merrill Lynch on Monday.

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profits forecast by a hefty £160m to a pre-disposals level of £580m and the following year's figure by £60m to a pre-disposals level of The company said profit £790m. The broker cited

> disposals for the move. Initially, news of the downgrade sent the shares south before the market appreciated that the forecast reduction came with a

strong buy recommendation. Also, there was bargainhunting following Tuesday's sharp decline. BA closed 7 up 635p after trade of 14m.

United News and Media advanced 16 to 696p on a clients before the results report that ITV companies might have to pay less for their licences if the Independent Television Commission cuts the sum of the fixed "cash bid" the broadcasters pay to the government. United is seen as the com-

UBS cut its current-year pany most likely to benefit, as its Meridian, Anglia and HTV stations bid high for their licences. Mr Neil Blackley at Merrill

Lynch reckons the company will be about £40m better off in 1999, a boost of about 12 per cent to profits. Carlton, which has high bidders in WestCountry and

Carlton and a low bidder in European Commission had Central, rose 81/2 to 4821/ap. Granada firmed 41/4 to 7670 and Yorkshire TV 121/2 to BOC topped the list of ris-

ers in the Footsie as it ued to benefit from recent advanced 69 to £11.41% in favourable brokers' notes, brisk trade. The gain was driven by its plan to sell the Ohmeda health care business - which analysts said could raise up to £1bn - and annual meeting. focus on its gas divisions.

Analysts said the disposal rose 10 to 7111 p as it recovwould enhance earnings, as ered from the pounding on Ohmeda had been a thorn in BOC's side for some years.

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P/E ratio net	18.22	18.06	17,96	18.75	18.93	15,92	18.98	15.80	
P/E rado nil	18.03	17,90	17.78	18.58	18.74	15.76	18,76	15.71	
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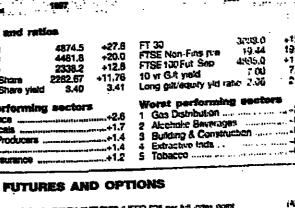
Rises and talks*		52 Week highs	and lows	LIFFE Equity opt	ions.
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Total Falls		Total Lows	103	Calls	22,005
Same	1.558	1		Puts	29,969

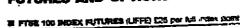
Mr Lucas Herrmann at which gained 11 to 440%p. NatWest Securities said: HSBC, in which the ordi-"BOC has recognised it naries appreciated 40 to would be better off without 521.04%, and Standard Charthat division, and the mar-ket has applauded that. The tered 22 ahead at £10.01. Royal Bank of Scotland put on 51% at 651p and Barclays fundamentals of the gas business demand a re-rating

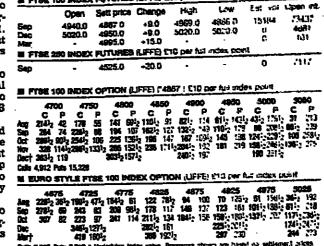
21/4 at £12.781/4. However, some refused to Smiths Industries rose 18 join the party. National to 756%p on news that the Westminster trailed 3 to 852p, while Lloyds TSB closed 51/2 off at 667p. cleared the Boeing-McDonnell Douglas merger. Smiths is a supplier to Boe-

Bargain-hunting helped BT recover from the slide that followed concerns about Some utility stocks continits merger with US group MCI. The shares gained 7 to 430p having traded 20m by with Severn Trent up 231/2 to the close.

902%p and Scottish Power The group is set to up 41/4 to 4481/4p, also helped announce first-quarter figby a positive statement at its ures at the end of this Elsewhere, United Utilities







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Africa (14)	1440.88	-1.7	1488.53	2783,47	5.45	23.44	2775.98	1324.06
Acstrainais (S)	1479.74	-2.0	1510.59	2251.97	3.56	17.10	2655.10	1335.10
Korth America (11)	1360.39	+0.6	1382.05	1741.21	1.03	59 07	1861.48	1244.23
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of this year was ripe for consolidation But such views were put on the back burner yesterday as bid talk returned, ignited by news of the merger between Baverische Vereinsbank and Baverische The best performers included Bank of Scotland,

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TSE 250 ex IT	4478.0				4481.6						1879.61
TSE 350	2338.2				2339.5						2039.72
TSE 350 ex IT	2338.9				2340.3		3.43				1048.47
TSE 350 Higher Yield	2268.1				2264,6						1677.78
7SE 350 Lower Yield	2412.9				2418.2						1721.30
TSE SmallCap	2190.58				2194.62						1863.35
TSE SmeECap ax IT	2149.32				2156.00						7844.29
TSE All-Share	2282.67				2284.14						2021.12
TSE Alf-Share ex IT	2282.99			2258.67	2284,89	٠ -	3,44	1.94	18.72	12.40	1039.79
I <i>FTSE</i> Actuaries Indi	istry (Sect o	TS								
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12 Extractive industries(5)	4171.94	-0.2	4181.15	4191.88	4259.64	3976.58	3.77	2.38	13.90	104.80	1275.23
15 Oil, integrated(3)	4961,11	+0.8	4920.27	4891,72	4925.90	3565.02	3.36	1,95	19.08	90.43	2283.26
18 Al Contomico & Deci19	2722 14	-A =	2750 O1	27E0 00	9700 04	2400 40	4.53	0 10	07.00	38 8E	2221 00

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FTSE 250 ex IT	4478.0	-0.4			4481.8				
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FTSE 250 Lower Yield	2268.1 2412.9				2264.6 2418.2			1.77	
FTSE SmallCap	2190.58				2416.2 2194.62			2.21 1.75	
FTSE SmeliCap ex IT	2149.32				2156.00			1.63	
FISE All-Share	2282.67				2284.14			1.83	
FTSE All-Share ex IT	2282.99				2284.89		3.44	1.94	
				223001	220-00	_	U	1.34	18.72 12-40 1006.79
FTSE Actuaries Ind	asay o	DEV'S				Year	Div.	Net	P/E Xd adf. Total
		boe%	Jul 22	Jul 21	Jul 18		yield%		
40 4000001 00004000000			4550 44						
10 MINERAL EXTRACTION(20) 12 Extractive industries(5)	4705. 39 4171.94				4689.10 4259.64			2.01	19,18 65.78 2106.43
15 Oil, integrated(3)	4961,11				4925.90			2.38 1.95	13.90 104.90 1275.23 18.08 90.43 2283.26
18 Oil Exploration & Prod(12)	3788.14				3790.24			2.19	
20 GEN INDUSTRIALS(264) 21 Building & Construction(35)	1887.53 1340.34				1884,37			1.89	15,60 44.15 1079.99
22 Building Matis & Merchs(30)	1783.95	-02	1270.27	1770 89	1781.30	1050 01	3.32 4.52	1.96 2.82	
23 Chemicals(25)	2486.52				2475.95			1.48	
24 Diversified Industrials(15)	1319.31				1318.24			1.97	11.23 38.47 782.79
25 Electronic & Elect Equip(37)	2024.72				2018.37			1.52	20.47 48.10 1100.56
26 Engineering(67)	2467.00				2461,80			2.31	15.84 47.05 1554.57
27 Engineering, Vehicles(13)	2740.72	+0.8	2718.30	2718.63	2743.66	2923,50	3.75	ŧ	± 54.42 1475.39
28 Paper, Pckg & Printing(27)	1910.37				1921.27			1.80	12.58 58.98 834.64
29 Textiles & Apparel(14)	1027.19		1027.54	1027.85	1028.98	1272.84	6.82	0.99	18.57 41.67 675.97
30 CONSUMER GOODS(85)	4739.37	+0.2	4731.33	4671.79	4719,46	3507.96	3.24	1.82	21.26 90.36 1831.22
32 Alcoholic Beverages(7)	3395.90				3428.37			1.98	18,98 88,88 1295,82
33 Food Producers(25)	3045,86				3027.57			1.84	18.59 58.76 1442.66
34 Household Goods(17)	3092.20				3093.06			2.27	1 5.35 54.2 6 1271.47
38 Health Care(15)	2177.41	+0.5			2201.48			1.66	25.71 35.49 1367.68
37 Pharmaceuticals(16)	7871.25 4350.87	==			7825.12			1.71	37.00 103.76 2762.77
38 Tobacco(3)					4279.92			1.81	10.71 158.73 1163.68
40 SERVICES(273)	2684.83				2684.30			1.90	22.03 47.16 1449 31
41 Distributors(30)	2708.17 3180.85	+0.8			2694.18		3.45	1,93	18.73 51.87 1037.88
42 Leisure & Hotels(31) 43 Medis(44)	3990.56	-D.E			3189.05 3989.21			1.84	23.03 68.47 1754.37
44 Retailers, Food(15)	2423.58				2413.25			1,47	34.39 67.72 1485.25 16,16 45.93 1613.64
45 Retafers, General(53)	2193.67				2190.51		3.23	2.03	19.04 40.50 1306.47
47 Breweries, Pubs & Rest (22)	3355.58				3329,48		3.38	2.28	16.20 48.77 1671.33
48 Support Services(55)	2960.01	-0.1	2962.26	2951.50	2980.29	2366.65	1.73	2.55	28.39 27.64 1928.97
49 Transport(23)	2872.67				2904.68		3,48	1.39	25.87 59.78 1254.24
60 UTILITIES(31)	3074.85	+0.5	3080 S1	2020 62	3098.34	221E 70	4.59	1.50	
62 Sectricity(9)	3498.16				3491,11		5.08	2.01	18.21 51.66 1420.29 12.24 92.77 1976.50
64 Gea Distribution(2)	2168.41				2222.24		5.62	2.01	\$ 54.50 1227.7G
86 Telecommunications(8)	2388.14				2391.16		3.74	1.68	18.91 10.90 1123,26
68 Water(12)	2961.99				2974.96		5.56	2.27	8.90 81.57 1774 12
89 NON-FENANCIALS(873)	2297.52				2295.77				
							3.54	1.82	19,44 43,44 1826,80
70 FINANCIALS(107)	4491,52				4518.02		3.12	2,39	16.78 91.04 2029.67
71 Banks, Retall(10)	9964.11				7013.11		2.61	2,61	17.05 128.43 2383.48
73 Insurance(17)	1781.32				1775.13		4.61	2.62	9.93 55.06 1424 15
74 Life Assurance(7)	4673.25	+1,2	4618.30	4574.71	4714.53	3375.12	3.75	1.95	17.08 121.00 2041,29
77 Other Firencial(29)	3267.01	+9.6	3240,03	3242.31	3277.01	2467.54	3.23	1.85	19.84 63.39 1948 01
79 Property(44)	2027.58	+0.4	خالابادلك	2016.67	2028,08	<u>1495,30</u>	3.19	1.83	29.58 34.73 1304 44
80 INVESTMENT TAUSTS(127)	3486.93	+0.8	3441.11	<u>3433,1</u> 5	3458.38	3016,71	2.18	1.17	48.94 43 79 1244.20
89 FTSE All-Share(907)	2282.67	+0.5	2270 91	925£ 40	2284.14	1810 20	3.40	1.93	
105 FTSE All-Share ex IT(780)	2282.99		2271.40			-019-08	3,44	1.84	19.09 43.32 2021.12
	1244,14		_						18.72 12 40 1039.70
FTSE Fledging	1242.98				1248.08		3.24	0.87	44.48 23.39 1347 80
FTSE Fledgling ax IT					1247.47	1219.78	3.61	0.85	40.82 23.51 1348 48
FTSE AIM	1034.6	+0.1	1033.9	1040.4	1045.4	-	1.03	0.60	80.001 4.40 948 84
# Hourly movements									1 A 040 D4
_									
Open 9.00	10.00	11.	w <u>1</u> 2	.00 1	3.00	14.00	15.00	10,	10 High/day Low/day

Nasty names. Shocking even, in print. But all too common if you're unlucky enough to be a refugee.

Wait. Why are "you" and "me" among them? And why is every figure identical? They're all the same! Exactly!

You see, refugees are like you and me. So what's the difference? Really only one: fear.

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While our homes are safe and our rights protected, their homes have been destroyed, and any rights they once enjoyed have been swept away by violence and hatred-and they've been living in constant fear for their very lives.

That's why they are refugees. Of course they wish they were back home-wouldn't you? But it's still too dangerous, and for now we must continue to offer them our protection.

So please, don't get mad at refugees.

Instead, save your breath for the situation that's made them refugees.

United Nations High Commissioner for Refugees

4902.1 4921.0 4924.3 4927.7 4909.7 4913.5 4514.3 4912.2 4866.9 4931.5 4472.0 4478.5 4478.9 4481.2 4483.2 4484.0 4484.7 4486.6 4482.0 4486.0 2348.0 2356.0 2357.3 2358.9 2352.1 2359.8 2354.0 2363.4 2355.3 2360.4 2191.05 2191.43 2191.65 2192.05 2181.92 2191.87 2191.77 2192.08 2190.73 2192.18 2291.66 2298.98 2300.21 2301.67 2295.43 2296.66 2297.17 2295.63 2280.02 2303.04 Further information is available on http://www.ftse.com © FTSE international Limited 1997. All Rights reserved. "FT-SE" and "Footsis" an E internations Limited 1997, At register to the Financial Times and a marks of the London Stock Exchange and The Financial Times and a by FTSE international under Source, for P/E ratios greater than 80 and net covers greater than 30 are not see are negative. Delation: Heath (C.E.) (73) 8 (FTSE SmallCap).

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### 1889 1889 189 189 189 189 189 189 189 1	The state of the s	## 4/- Big Law 4/- Big Law 4/- Big Law 4/- Big Law 343 Sheets 120 16 -4 45 120 00 70.57 \$23 Sheets 170 16 -4 45 120 00 70.57 343 Sheets 170 16 -7 16 65 89 343 Sheets 170 16 -7 16 65 89 343 Sheets 170 16 -7 16 65 89 344 Sheets 170 16 -7 16 65 89 345 Sheets 170 16 -7 16 65 89 347 Sheets 170 170 170 170 170 170 170 170 170 170	12 25.5 million	Law Yet PK	CK MARK MA	+/- High Lew Yel PK5 400 -201 500 1,100 0.6 551 Hights 400 -201 500 1,100 0.6 551 Hights 4129 +40 2,140 1,520 0.2 22 241 Hights 4121 +40 2,140 1,520 0.2 22 241 Hights 4121 +21 257 242 241 Hights 412 +2 765 277 1.5 1.5 1.5 1.5 412 +2 765 277 1.5 1.5 1.5 1.5 412 +2 765 277 1.5 1.5 1.5 1.5 413 +2 1 1,220 1,240 0.3 3.5 Hights 414 +3 1 2,200 1,200 0.3 3.5 Hights 415 +4 1 1,220 1,200 0.3 3.5 Hights 415 +4 1 1,220 1,200 0.3 3.5 Hights 416 +4 1 1,220 1,200 1,350 1,350 417 +4 1 1,200 1,300 1,300 1,300 418 +4 1 1,200 1,300 1,300 1,300 419 +4 1 1,300 1,300 1,300 1,300 410 -4 1 1,300 1,300 1,300 1,300 410 -4 1 1,300 1,300 1,300 1,300 410 -4 1 1,300 1,300 1,300 1,300 410 -4 1 1,300 1,300 1,300 1,300 410 -4 1 1,300 1,300 1,300 1,300 410 -4 1 1,300 1,300 1,300 1,300 410 -4 1 1,300 1,300 1,300 1,300 410 -4 1 1,300 1,300 1,300 1,300 410 -4 1 1,300 1,300 1,300 1,300 410 -4 1 1,300 1,300 1,300 1,300 410 -4 1 1,300 1,300 1,300 1,300 410 -4 1 1,300 1,300 1,300 1,300 410 -4 1 1,300 1,300 1,300 1,300 410 -4 1 1,300 1,300 1,300 1,300 410 -4 1 1,300 1,300 1,300 1,300 4		### ### ### ### ### ### ### ### ### ##	31 170 100 Berth A 8 1 212 5224 Berth A 100 Berth A 8 1 212 5224 Berth A 100 B
1	The state of the s	### Control 1220 420 229 122	## MORPHAY (Jul 23 / Kroner) ## MOR	ABS R 2.128 ABS R	1. 1. 1. 1. 1. 1. 1. 1. 1. 1. 1. 1. 1. 1	193	10 12 12 12 12 12 12 12	Some 7.55	55 12 9 31 92 Cetano Caracter 15 12 9 13 12 9 Cetano Caracter 15 12 9 13 12 9 Cetano Caracter 15 12 9 13 12 9 Cetano Caracter 15 13 14 12 9 13 12 9 Cetano Caracter 15 13 14 15 15 15 15 15 15 15 15 15 15 15 15 15
1	The state of the s	### Control 1220 420 229 122	## MORPHAY (Jul 23 / Kroner) ## MOR	ABS R 2.128 ABS R	Color Colo	200	120 120 120 120 120 120 120 120 120 120	12.65	55 12 9 31 92 Cetano Caracter 15 12 9 13 12 9 Cetano Caracter 15 12 9 13 12 9 Cetano Caracter 15 12 9 13 12 9 Cetano Caracter 15 13 14 12 9 13 12 9 Cetano Caracter 15 13 14 15 15 15 15 15 15 15 15 15 15 15 15 15
1	The state of the s	### Control 1220 420 229 122	## MORPHAY (Jul 23 / Kroner) ## MOR	ABS R 2.128 ABS R	1	100 - 101 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1	1200 1200 1200 1200 1200 1200 1200 1200	Company Comp	55 12 9 31 92 Cetano Caracter 15 12 9 13 12 9 Cetano Caracter 15 12 9 13 12 9 Cetano Caracter 15 12 9 13 12 9 Cetano Caracter 15 13 14 12 9 13 12 9 Cetano Caracter 15 13 14 15 15 15 15 15 15 15 15 15 15 15 15 15
1	The state of the s	### Control 1220 420 229 122	## MORPHAY (Jul 23 / Kroner) ## MOR	ABS R 2.128 ABS R	12	10 10 1570 1580 177 1815 1815 1815 1815 177 1815 1815 1	100 100 100 100 100 100 100 100 100 100	277 -278 -	55 12 9 31 92 Cetano Caracter 15 12 9 13 12 9 Cetano Caracter 15 12 9 13 12 9 Cetano Caracter 15 12 9 13 12 9 Cetano Caracter 15 13 14 12 9 13 12 9 Cetano Caracter 15 13 14 15 15 15 15 15 15 15 15 15 15 15 15 15
1	The control of the co	In the worl Rockwell plays a key	## MORPHAY (Jul 23 / Kroner) ## MOR	ABS R 2.128 ABS R	11 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1	### 10 2 188 1 149 1 55	325	Sect	2010 11650 MMAL
1	The control of the co	In the worl Rockwell plays a key	## MORPHAY (Jul 23 / Kroner) ## MOR	ABS R 2.128 ABS R	120 120 120 120 120 120 120 120 120 120	28810 130 55 10 10 10 10 10 10 10 10 10 10 10 10 10	1000 200 000 000 000 000 000 000 000 000	1.00 1.00	2010 11650 MMAL
1	The control of the co	In the worl Rockwell plays a key	d's crowded sk Collins Avionic role in promot	ABS R 2.128 ABS R	- 11 65 233 13 165 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0	1865	120	Triple T	2010 11650 MMAL
1	The control of the co	In the worl Rockwell plays a key	d's crowded sk Collins Avionic role in promot	ABS R 2.128 ABS R	**************************************	519 2	57/453 65 12 22 23 1 6 6 6 6 7 6 7 6 7 6 7 6 7 6 7 6 7 7 6 7	### 20 4 4 50 12 10 5 1 2 5 6 1 1 2	2010 11650 MMAL
1	The control of the co	In the worl Rockwell plays a key	d's crowded sk Collins Avionic role in promot	ABS R 2.128 ABS R	14 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1	787 - 5 1010 265 1.0 strainb 289 +12 42 181 2.4 15.5 blobal 144 145 145 145 145 145 145 145 145 145	### - 21,100 72 47 47 48 47 44 48 48 44 48 48	### 1710 *** 11 17 46	2010 11650 MMAL
1	The control of the co	In the worl Rockwell plays a key	d's crowded sk Collins Avionic role in promot	ABS R 2.128 ABS R	2.50 (1985) 1.51 (1986) 1.51 (500 + 10 1,550 967 0.9 504 Miller 2 1, 1770 + 101 1,000 678 0.6 4.04 Miller 2 1, 1770 + 101 1,000 678 0.6 4.04 Miller 2 1, 1770 + 101 1,000 678 0.6 4.04 Miller 2 1, 1770 + 101 1,000 678 0.6 2.2.5 Miller 6 1,000 678 0.6	250 + 30 2,400 1,530 18,8 41,3 18,3 18,3 18,3 18,3 18,3 18,3 18,3 1	2710 - CC 20120 1270 2275 2470 2775 2775 2775 2775 2775 2775 2775 27	2010 11650 MMAL
1	The control of the co	In the worl Rockwell plays a key	d's crowded sk Collins Avionic role in promot	ABS R 2.128 ABS R		180 -10 357 1833 18 24 0 00 mm 5 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1	100 -3 1,180 784 03 347 14 10 10 10 10 10 10 10 10 10 10 10 10 10	2.75	2010 11650 MMAL
1	The control of the co	In the worl Rockwell plays a key	d's crowded sk Collins Avionic role in promot	ABS R 2.128 ABS R	-50 1845 7 1 1 2 1 1 2 1 1 2 1 1 2 1 1 2 1 1 2 1 1 2 1 1 2 1 2 1 1 2 1 1 2 1 1 2 1 1 2 1 1 2 1 1 2 1 1 2 1 1 2 1 1 2 1 1 2 1 2 1 2 1 2	170 4-120 6-000 1:000 744-324 friends 170 4-120 6-000 1:000 744-324 friends 170 4-120 6-000 1:000 744-324 friends 170 752 5-120 5-120 744-90 ordinal 7,732 5-120 5-120 744-90 ordinal 7,732 5-120 5-120 744-90 742 742 742 742 742 742 742 742 742 742	357	Medica 145 175 1875 1875 1875 1875 1875 1875 1875	2010 11650 MMAL
1	The control of the co	In the worl Rockwell plays a key	d's crowded sk Collins Avionic role in promot	ABS R 2.128 ABS R	22 / Fts.) 23 / Fts.) 24 / Fts.) 25 / Fts.) 25 / Fts.) 26 / Fts.) 27 / Fts.) 27 / Fts.) 28 / Fts.) 29 / Fts.) 20 / Fts.) 20 / Fts.) 20 / Fts.) 21 / Fts.) 22 / Fts.) 23 / Fts.) 24 / Fts.) 25 / Fts.) 26 / Fts.) 27 / Fts.) 28 / Fts.) 27 / Fts.) 28 / Fts.) 29 / Fts.) 20 / Fts.) 20 / Fts.) 20 / Fts.) 20 / Fts.) 21 / Fts.) 22 / Fts.) 23 / Fts.) 24 / Fts.) 25 / Fts.) 26 / Fts.) 27 / Fts.) 28 / Fts.) 28 / Fts.) 29 / Fts.) 29 / Fts.) 20 / Fts.) 21 / Fts.) 22 / Fts.) 23 / Fts.) 24 / Fts.) 25 / Fts.) 26 / Fts.) 27 / Fts.) 28 / Fts.) 29 / Fts.) 29 / Fts.) 20 / Fts.) 21 / Fts.) 22 / Fts.) 23 / Fts.) 24 / Fts.) 25 / Fts.) 26 / Fts.) 27 / Fts.) 28 / Fts.) 28 / Fts.) 29 / Fts.) 20 / Fts.) 21 / Fts.) 22 / Fts.) 23 / Fts.) 24 / Fts.) 25 / Fts.) 26 / Fts.) 27 / Fts.) 28 / Fts.) 28 / Fts.) 28 / Fts.) 29 / Fts.) 20 / Fts.) 21 / Fts.) 22 / Fts.) 23 / Fts.) 24 / Fts.) 25 / Fts.) 26 / Fts.) 27 / Fts.) 26 / Fts.) 27 / Fts.) 28 / Fts.) 28 / Fts.) 28 / Fts.) 29 / Fts.) 29 / Fts.) 20 / Fts.) 21 / Fts.) 22 / Fts.) 23 / Fts.) 24 / Fts.) 25 / Fts.) 26 / Fts.) 27 / Fts.) 28 / Fts.) 28 / Fts.) 28 / Fts.) 29 / Fts.) 29 / Fts.) 20 / Fts.) 21 / Fts.) 22 / Fts.) 23 / Fts.) 24 / Fts.) 25 / Fts.) 26 / Fts.) 27 / Fts.) 28 / Fts.) 28 / Fts.) 28 / Fts.) 29 / Fts.) 20 / Fts.) 21 / Fts.) 22 / Fts.) 23 / Fts.) 24 / Fts.) 25 / Fts.) 26 / Fts.) 27 / Fts.) 27 / Fts.) 28 / F	105 - 45 - 689 122 - 184 Primali 100 - 40 1950 1,150 0,755 Financia 171 - 4 405 25 0,755 Financia 173 - 4 405 25 0,755 Financia 174 - 4 405 25 0,755 Financia 175 - 61 177 127 128 4 Finan 12,15 170 - 170 512 1,164 Finan 12,15 170 - 170 512 1,164 Finan 12,15 170 - 170 170 170 1,550 1,16 Financia 170 - 170 170 170 170 170 170 170 170 170 170	100 - 0.44 171 - 8 5.50 1.5 1.5 1.5 1.5 1.5 1.5 1.5 1.5 1.5 1.5	HR Pr 9025 22 10180 7150 n 102 21 10180 7150 n 10	2010 11650 MMAL
1	The control of the co	In the worl Rockwell plays a key	d's crowded sk Collins Avionic role in promot	ABS R 2.128 ABS R	## 2015 131 50 210 81 Births 5 Births 15 Births 15 Births 15 Births 16 Birth	500 - 25 E27 500 1.8 — Sakara 100 +77 7100 4900 155 37.9 Sanden 145 +46 95 410 1.3 — Sanden 146 +46 95 410 1.3 — Sanden 150 +30 7.501 4.00 1.4 521. Sanden 150 -50 7.501 50 1.5 67.4 Sanden 150 -50 7.4 95 1.5 47.4 Sanden 150 -50 7.4 95 1.5 — Sanden 150 -50 7.4 95 1.5 95 1.5 50 1.5 50 1.5 1.5 1.5 1.5 1.5 1.5 1.5 1.5 1.5 1.5	224 -77 1,150 585 1,0 -71 5,50 5,50 1,0 -71 5,50 5,50 1,0 -71 5,50 5,50 5,50 5,50 5,50 5,50 5,50 5,5	Bern 11: 462 + 933	2010 11650 MMAL
-500 31275 1200 0.3 57.0 -10 970 780 1.3 18.4 5000 1346 21706 0.3 -2 439 21121 1.3 18.0	BILANTY (Jul 23 / Dire.)	In the worl Rockwell plays a key safety	Collins Avionic	ABS R 2.128 ABS R		540 - 51,400 550 1,5 47,4 Semigra 1, 1, 1, 1, 1, 1, 1, 1, 1, 1, 1, 1, 1,	1010 -101,050 825 09 26.9 105 105 105 105 105 105 105 105 105 105	AND 11 (1) - 12 15 15 15 15	
-500 31275 1200 0.3 57.0 -10 970 780 1.3 18.4 5000 1346 21706 0.3 -2 439 21121 1.3 18.0	BILANTY (Jul 23 / Dire.)	In the worl Rockwell plays a key safety	Collins Avionic	CBuSC 141 +7	128 1286 2350 2010 Heart 5440 128 1286 2350 2010 Heart 5440 177 1285 035 03 128 080 2 178 1285 035 03 128 128 128 100 575 15 124 124 128 128 128 128 128 128 128 128 128 128 128 128	140 -10 1,720 914 0.6 59.3 Seyof L 100 -14000 58100 4500 0.9 31 8 Seyof L 00 -12000 46000 38100 1.2 22.8 Seyo	in .10 1750 1040 to 22 1 W	arin 1 21 + 18 1 47 0.50 arinSh 17.85 - 15 30.60 9.80 arinSh 546 + 30 6 2 40 arinSh 13 + 10 15 20 9.90	25 28 6 421 390 Liftons 41 66890 Liftons 12 37 4 74160 Lockson 74160 Lockson 74160 Lockson 45 143 46557 Madinz
-500 31275 1200 0.3 57.0 -10 970 780 1.3 18.4 5000 1346 21706 0.3 -2 439 21121 1.3 18.0	BILANTY (Jul 23 / Dire.)	Rockwell plays a key safety a	role in promot	Case 1,050 \$5 Reg 204 75 +1 BAS C 8,825 +1 BSC 4,850 Bas C 4,850	46 1,050 412 1.0 31 6 Jelion 2,200.0	### +2 343 198 564788 1.0 ### -25 780 525 0.9 564788 1.7 ### -10 1.050 760 0.7 26.6 SetSur	880 +10 1,200 750 15 39.6 Wi 842 +5 1,400 850 1.9 - Wi 180 +30 1,330 1.00 1.3 17.8 W 180 +20 1,390 1,030 1.5 18.6 W 121 -7 350 111 -7 360 18 W 121 -7 360 1 11		2.4 14.2 W22790 Macm8 2.8 13.8 356299 Macm8 76 94 78679 Macm8 16 807700 Macm8 6.6 112774 MacMa
-500 31275 1200 0.3 57.0 -10 970 780 1.3 18.4 5000 1346 21706 0.3 -2 439 21121 1.3 18.0	BILANTY (Jul 23 / Dire.)	plays a key	role in promot	Figch8 2,675	274 12050 2.0 18.0 JT 883.00 170 6,830 4,510 2.2 17.9 Johnson 782 455 5943 3,510 0.1 Joyden 782 41 545 412 2.2 614 Joyden 3,5 435 2,240 1,150 2.2 NOS 6,1	90 +8.000 90.000 10.000 08 25.0 Sharp 1.4 10 +8.000 90.000 10.000 08 25.0 Sharp 1.7 10 -1.720 710 9.9 36.3 Sharp 1.7 25 -2 825 593 0.7 Sharp 1.7 10 +109 4.570 2.550 0.6 317 Sharp 1.7 100 -190 77.590 6.520 0.6 37.5 Sharp 1.7 100 -190 77.590 6.520 0.6 37.5 Sharp 1.7	190 +10 1,850 1,410 0,8 35 9 900 -40 2,860 1,850 2,5 24 7 181 -40 1,150 498 14 -3 350 +30 3,860 1,840 0,2 30,2 810 -25 945 686 0,9 21 3 810 -10 1,830 1,300 0,7 38,0 4	600MESSA (Jul 23 / Rupleh) selec 8.125a/ +75.8,900 2,175 mand 1,850m/ +50.2,175 1953	1600 Mounts 51661 Mounts 20889 Mounts 8000 Mingto 1.7 25.5 18942 Nat7st
-500 31275 1200 0.3 57.0 -10 970 780 1.3 18.4 5000 1346 21706 0.3 -2 439 21121 1.3 18.0	BILANTY (Jul 23 / Dire.)	safety		Friedly 511 1118 1129 1129 1129 1129 1129 1129 11	+1 cs4 482 3.1 29.1 Kageme 51 -20 1.40 782 1.8 148 Kagem 52 -22 1.487 675 1.3 Kalenth 52 -52 255 175 1.3 19.1 Kalenth 52 -44 1.175 575 2.4 19.4 Kanado 11 -2 231 120 2.4 19.8 Kanado 7	70 +15 1.050 479 1.5 - Skells, 12 71 +15 1.050 479 1.5 - Skells, 1.7 751 -9 855 485 1.4 872 Skells, 1.7 85 +4 1.360 754 1.1 25.5 Skells 191 +1 311 171 Skells, 1.7 259 +13 752 481 1.0 39.9 Skells	200 +10 1,430 985 0.5 523 95 100 -1 280 989 0.5 87 129 -7 430 121 125 -5 708 421 0.3 30.5 in 261 -6 322 220 1.1 in 365 -5 595 325 14	stler 8.1254 + 75 8.900 2.175 midded 1.850ad + 55 2.175 1.850 midded 9.850ad + 55 2.175 1.850 midded 9.850ad + 55 1.175 1.850 midded 9.850ad + 55 1.875 1.800 midded 9.850ad + 55 1.877 1.885 midded 9.850ad + 55 1.875 1.875 midded 9.850ad + 55 1.875 midded 9.850ad + 5	18.5 396853 November 25.40.5 55862 November 15.23.6 778475 Normal A 2 3 5.2 189900 Normal 4 9 51 826200 Normal 19 18 7 24415 Normal 19
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TIN 170 200 WH LACING	pp 317.70 - 30 539 248 1.5 17. pp 41.50 17.90 530 1.6 4.5 17. pp 57.50 + 1.50 67.90 53 1.6 64. pp 61.50 5.4 5.5 17.50 530 1.6 1.3 31. pp 61.50 5.4 5.5 17.5 18. 5.5 17.5 18. 5.5 17.5 18.	1-9 <mark>1-9 Metherlands (Jul 23 / Fis.)</mark> 22-1 1-2 Armant 48-90 + 1.60 52-50 20-40 2 Arguma 16-1 + 6 162 70.40 1	Print Wild 25 Sign :	2.940 22.7 Acetals 1,790ml — 1582h 1.5 28.0 Acetals 1,790ml — 2,385 1.3 30.8 Acetals 1,080 4 20.00 2.1 17.7 Acetals 376 459 1,990 17 8.3 Acetal 376 376 4786 378 4786		NE -10 659 360 7 4 16 0 10 10 10 1			4 pm close
10 **15 **200 **13 **1 Leicht **5 **55 **25 **15 **1 Leicht** **10 **13 **5 **10 **2.5 **11 Leicht** **12 **13 **10 **2.5 **11 Leicht** **12 **12 **13 **10 Leicht** **12 **13 **10 **10 **10 Leicht** **14 **10 **10 **10 **10 Leicht** **15 **10 **10 **10 **10 Leicht** **17 **10 **10 **10 **10 Leicht** **18 **10 **10 **10 Leicht** **10 **10 **10 Leicht** **10 **10 **10 Leicht** **10 **10 **10 Leicht** **10 **10 Leicht** **10 **10 Leicht** **10 **10 Leicht** **10 Le	THE CLASS ALL STATES AND ALL STATES ALL STAT	13.2 Besture 48.00 +1.00 52.00 20.40 21.00 52.00 20.40 21.00 52.00 20.40 21.00 52.00 20.40 21.00 52.00 20.40 21.00 52.00 20.40 20.50 21.00 20.40 20.40 20.50 21.00 20.40 20.40 20.50 21.00 20.40 20.40 20.50 21.00 20.40 20.40 20.50 20.40	21 21.6 SPopt 4.80 -510 4,000 -110 4,000 -110 4,000 -110 4,000 -110 4,000 -110 4,000 -110 4,000 -110 4,000 -120 -130 -130 -130 -130 -130 -130 -130 -13	182	-20 1.260 985 0.8 9.2 infloat 1.53 -6 350 4.00 0.7 17.3 infloat 1.00 -7 670 347 1.3 infloat 1.00 -7 620 2.40 1.80 0.4 infloat 77 -7 620 2.40 1.80 0.4 infloat 77 -7 620 1.40 0.45 1.7 infloat 77 -7 620 1.40 0	285 -10 653 365 1.7 51.2 Topolo 2.4 1.5 1.5 Token 2.4 1.5 Token 2.5 Token 2.5 1.5 Token 2.5 Toke	1400	SAM 2 322	5.9 8.5 Sales 2007 Recht 28 14.8 20007 Recht 28 14.8 20007 Recht 28 14.8 20007 Recht 200 Recht 2
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4.20 231.40 128.20 2.4 18.2 Padder 113 965 656 2.1 27.4 Present 11 987 756 15 22.4 Present 11 987 756 15 25 25 25 25 25 25 25 25 25 25 25 25 25	### (-8857,000 3,240 0.3	9.5 Start 3 (1) 12 (1)	5.1 18.1 Comm 3.450 +10.450 ; 1.2 18.1 Comm 3.450 ; 1.2 18.1 Comm	508 — Chine 621 — 3,775 24 — ChichO 408 — 1,080 3.1 16.4 ChichO 397 — 8,790 1.3 29.5 Chirle 520 5,400 1.5 24.9 Ondal 2,020 3,876 1.5 — Chipma 1,000	-14 985 600 08 Horl \$ 1,70 -10 597 340 13 243 Horl \$ 154 -5 15,85 98,55 13 41,1 HeC 1,85 -5 20 240 1,800 25 39,5 HeC 1,81 -10 1,100 911 1,1 2,7 HeC 5, 124 -10 1,100 911 1,1 2,7 HeC 5, 124	58 4 1,160 570 0.8 — USe. 30 — 3,060 1,400 1.2 0.6 0.8 1.4 1.4 1.4 1.4 1.4 1.4 1.4 1.4 1.4 1.4	100 +20 4 100 4 100	#P0 3.02 + .02 3.32 2.50 #P0 4.34 + .04 6.50 4 ##8 4.38 + .24 4.38 2.28 ##8 1.48 + .24 4.38 1.28 ##8 1.68 1.28 ##8 1.28 + .25 11.31 7.79 ##8 9.85# + .25 11.31 7.79	56 13 65.9 14 38.4 16 33.2 ABSA 33,45m - 21 41.6 AECI 28 - US 206 AEGI 115 12 27 7 ABSC 187
4.20 331.40 (20.20 2.4 16.2 Protein 13 955 656 2.1 27.4 Protein 13 955 656 2.1 27.4 Protein 13 957 958 1.5 25.4 Protein 13 957 958 1.5 25.4 Protein 13 957 958 1.5 25.4 Protein 13 958 1.5 25.0 1.2 25.0 Protein 13 958 1.5 25.0 1.2 25.0 Protein 13 958 1.5 25.0 1.2 25	mi 390.20 +2.20 425 190 1.8 21. hi 142 -50 148 69.67 is 118 333 271 - 8 46 431.80 +16.01 434 188.20 04 78 67 +1.50 84 37.07 1.8 27	7.2 August 118 +3.69 122 60.75 1 — Helian 328.39 +7.03 532 255 1 — Helian 42.30 +2.4 46.40 25.53 1 7.7 Helian 42.30 +2.4 46.40 25.53 2 7.7 Helian 94.10 +7.60 94.30 52.00 1 7.7 Helian 113.70 +2.01 15.00 52.00 1 7.7 Helian 113.70 +9.01 15.00 52.00 1 7.7 Helian 113.70 +9.01 15.00 52.00 1 7.8 Helian 64.20 -64.33 63.01 1	1.0 35.1 Porty 12,800 +190 13,150 / 1,125.0 Pryca 3,180 -65 3,370 2 10 13,1 Repeat 6,370 -30 6,840 : 25 12.5 SMACE 331 -7 385 (4,2 1,1 Serrit 500 -16 637 15 31,1 Solida 6,260 -110 6,580 ;	7,600 1.2 21.6 Chung 9, 1,880 - 2,385 1.5 27.7 Chung 9, 1,880 67.7 1,990 2.1 18.2 Chung 9, 2,880 448 116	20 2,380 1,910 2.5 27.1 left, 50 46 +7 1,250 407 0.9 MCK 50 +8 290 763 1.0 30,7 MCK 50 -7 890 402 1.8 32.0 left, 50 +8 642 497 1 4 51,7 M7M 50 -10 227 305 1.8 56-8 left, 50	30 +1 544 365 1.3 8.1 YmsFt 7 71 +2 314 215 1.4 168 YasirB# 4 35 1675 710 0.7 224 YasirB# 4 82 +20 508 555 1.0 444 Yndmilk 6 60 -8 730 525 1.0 444 Yndmilk 6 67 -7 730 525 1.5 348 Yndmilk 4 47 -10 534 301 0.7 428 Yndmilk 4	773 +2 785 500 0.9 54.1 Pa 172 +4 869 263 1.1 — Pd 170 +13 1.170 784 0.8 85.1 Pd 1808 -8 957 481 0.8 57 1811 - 658 450 1.7 52 1875 560 0.8 52	Organ 9 99 1 1.14 0.88 2 1.14 0.88 2 1.14 0.88 2 1.14 0.88 2 1.14 0.88 2 1.14 0.88 2 1.14 0.15 1	23 AngAm281 50ml + 0.4 - Angold 248 - 1.2 - AngAm1 157 16 17 2 Angust 34 50 1.3 30 0 Angust 17.30 - 1 1.72.2 Angust 11 1
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Jul Jul Jul 23 22 21		Japan	Jul Jul	Low Body Joses	2061.65 7906.72 7890.45 8061.6 5 B	Shoes compilation Low High Low ARTC O. ARTC	52 - 13 4.05 0.75 - WE 180 - 01 70 85 0.73 4 1 181 + 18 4 2.50 2.0 36.7 155 + 406 8.09 7.40 6.1 15.6 st 0 + 04 0.01 2.0 36.7	Fig. 198 - 02 252 193 1 81 48 + 02 452 258 10gTai 4.16 4.72 2.81 10TH KOREA (Jul 23/Won)	16 30.2 ARSA 23.45cd 28 16 30.2 ARSA 23.45cd 28 16 30.2 ARSA 23.45cd 28 16 30.2 ARSA 28 16 30.2 ARSA 28 17 30.2 ARSA 28 17 30.2 ARSA 28 18 30.
44 22933.65 22347.28 2 2853.4 2658.4 2653.4 3 843.5 845.6 848.0		2nd Section(4/1/68) 1791.06 1798 Meloyelia 14.5E Comp.(4/4/86) 1034.07 1048	B.32 (c) 1849.25 30/6 15/16	19.82 10/4 18.80 15/4 Home Bunds	(227) 163.99 194.13 194.17 194.17 (187) 2893.85 2827.33 2836.07 2864.19 2	[11/4] (22/1927) (8/1/32) Astrino 1.1 101.09 189.77 54.99 Aug 8 107 (14/4) (18/10/53) (1/10/81) Aug 81.1 22/22.07 28/4.19 13.23 Arrunt 2.	85 +05 228 158 32 309 36 +29 10.96 5.09 44 136 70 +17 270 1.8 40 273 hy 95 +15 8.00 5.30 5.1 8.4 kg 54 +02 1.83 0.30 5.1 8.4 kg 55 +02 1.83 0.30 5.1 8.4 kg 33 +00 2.60 2.00 3.6	+/- High Low 1 SmgC 21,000 27,4015,900 dBP 27,200 +300 10,500,24,000 4599 1,250 +500 11,500,24,000 dBg 17,900 +800 11,700 5-544	Tal Fri Etono 15.65 Engen 21.30 43.2 Enden 15.30 1.7 18.5 Please 39.05 1.5 30.7 Fragel 23.20 11 20.2 Gerbed 23.60
145278 1408.44 1400.24		Mendico PC(Nor 1875) 44 4652 Retherland CRS THENCO(Ind 83) 1152.7 112 CRS Al She[Ind 83) 666.0 64	23.7 1091.1 1152.270 23/7 730	19.48 2/1 USBries	(16/7)	2222.07 2844.18 13.23 AProvid 2 (2711 (167/87) (87/82) Beleich 9, 209.47 284.46 18.53 Seed 9, (25/4 (37/8/43) (87/82) BengCa 0, (25/8) (7/8ex/sical/4) BengCa 0, (7/8ex/sical/4) BengCa 1, (7/8ex/sical/4) B		Fig. 21.000 77.4015.000 Fig. 77.4015.000 Fig. 77.200 + 500 76.000 76.000 76.000 Fig. 77.200 + 500 76.000 76.000 Fig. 77.200 + 500 76.000 Fig. 77.200 + 500 76.000 Fig. 77.200 + 500 76.000 Fig. 77.200	16 7.2 sentor 19 - 9 - 9 - 9 - 9 - 9 - 9 - 9 - 9 - 9
M 12235.0 11292.0 1	13617,99 87 6655.59 2/1	New Zunkerd Cap. 40(1/786) 2464.97 2453 Norwey Cato SE(nd)(2/1/83) 2118.74 2083	3.82 2459.28 2526.85 47 2297	7,48 1/4 Standard and P Composite: 80.05 2/1	Poors 933.98 912.94 915.30 936.59 (16/7)	(Actually) Sherish 2.1 Brosh 2.1 737.01 998.58 4.40 Captup 2. (2/1) (167/87) (1/6/32) Carthi 2. (2/1) 1667.89 15.2	53 + 03 256 155 18 15 18 15 + 13 537 395 52 149 18 41 + 96 559 416 57 18 9 43 - 259 218 72 9 25 + 93 342 255 18 9 25 + 18 18 11 18 55 0	enwen (Jul 23 / TW S) ins 14800 -3 "185 138 (1856 11850 -750 115 97 15 (2006 1380 -550 103 450 103 105 105 105 105 105 105 105 105 105 105	Implet 46 75 trgue 24 25 JCA 20,15 JCA 20,15 JCA 20,15 JCA 20,15 JCA 24 75 gl 0 8 Libert 387
(a) 508558 504882 ((a) 5714251 6847.40 (6255.10 17/7 5678.20 14/4 3022.27 16/7 28/6.02 11/4	Philippinus Nenia Comp(2/1/85) 2636,37 2856 Portugel R4. 30(4/1/83) 3366,58 3354	6.73 2848.34 3447.80 3/2 2468	Indestrials 1 838-205 557-211	105.30 102.97 102.84 105.75 (3/7)	865.42 1106.82 3.52 Chiesal 16; (1)44 (1877/87) (80/8722) Chiesal 3.00 Chiesal 6; (2)41 (1877/87) (80/8722) Chiesal 3.00 Chiesal 6; (2)41 (1977/87) (4871/4) Chiesal 7.12 (2)41 (1977/87) (4871/4) Chiesal 7.12 (4871/4) Chi	34 +02 7.12 4.34 34 77.1 C3 40 -05 7.88 5.94 11 12.9 Fr 27 +50 17 10.15 5.9 Fr 18 -02 1.82 1.13 8.6 7.8 St 80 +08 3.45 1.58 - 18	ins 148xi -3 785 138 (188x 119.50 -7.50 115.97 15 (189x 119.50 -7.50 115.97 15 (189x 119.65 1	- Libtle 146.50 - MARH H 10.50 1.4 Minrop 96.50 1.2 Nampok 18.50 - Negdor 100.75
pg 3383.61 3944.00 3	\$58.29 17/7 470.14 2/1	South Africa USE GONCOUNTRY 982.4V 98	63.2 1008.2 1988.10 2772 903	994 254 Ames Comp. 890 7/7	634.20 630.40 633.59 638.03 (167)	386.47 485.24 4.64 FM 0.0 (11/4) (187/87) (25/442) FC Bad 3.7 541.20 638.03 524.20 FC Pap 2.89 (28/4) (187/87) (187/88) Fach 2.89 (28/4) (187/87) (187/88) Fach 3.89 (28/4) (187/87) (187/88) Fach 3.89 (28/4) (187/87) (187/88) Fach 3.89	54 -00 0.79 0.58 16 105 15 15 15 15 15 15 15 15 15 15 15 15 15	MALAND (Jul 23 / Beht) Mar 206 – 18 "362 132 2 Mar 240 – 12 350 , 138 1	Pold 7 7.50 Prence 7.654 Prence 7.654 Prence 7.50 Render 9.70 2.9 Render 9.70 1.2 Render 28.70
99 5635.49 5603.84 30 652.29 544,04 641.10	1953-40 23/7 1533.19 2/1	South Koree KoreiCepEc**(41/80) 730:58 725 Spain	5.98 740.83 782.29 17/6 611.	1.05 7/1 RATIOS	Jul 18 Jul 11	1207.00 1580.83 \$4.87 Februar 8.1 (2/4) (16/7/97) (2/10/74) From: 3/1 (2/7) (16/7/97) (2/10/74) From: 3/1 (2/7) (2/7) (3	*** +.10	Mark 206 -18 302 132 (Mark 206 -18 305 138 1 Mark 650 -4.50 30 11.30 1 Mark 637 -5 138 1 12 (Mark 637 -5 138 1 12 (Mark 637 -5 138 1 12 (Mark 637 -26 138 1 2 (Mark 637 -26 1 2 (Mark 637	54 5.6 Ramil 75 48 - SAPR 45 50 93 - SASOL 59.25 4.7 8.6 SaPles 11.50 3.8 10.5 Senta 7.88
pg 3833.61 3844.00 3 ps 5635.49 5603.54 1 30 652.29 644.04 641.10 03 3489.10 3431.30 3409.83 3 1853.40 1909.96 1884.77 1 3803.53 2821.13 2874.12 3	3003.53 237 2256.97 21	Sweden Assessables(1/2/37) 3212.0 317 Switzerland	78.5 3126.9 3222.20 167 2378 77.1 5820.5 6012.00 87 3822	1850 2/1 S&Pind. Div. 280 7/1 S&Pind. P/E:	Jul 16 Jul 9 yield 1,50 1,55 ratio 25,78 24,91	1.63 2.30 Sides 1.3 Jul 2 Year ago Cicenti 2.1 1.58 2.32 Cices 12.1 24.75 18.63 Notes 0.4		CBS 155 - 26 336 52 55 55 55 55 55 55 55 55 55 55 55 55	56 6 7 Smatcs 2560 + 65,9 SABraw 140.75 + 4.3 9.6 SAMnAm 43.5 SDM 100
99 5838.41 3844.00 3 99 5838.49 5838.84 5 30 657.29 544.04 641.10 31 857.29 544.04 641.10 31 853.40 1908.56 1884.77 1 3003.53 2827.13 2874.12 3 1467.25 1410.45 1385.46 1 59 459.49 4134.20 4670.2 4 4406.09 4230.82 4108.40 4	200.5 277 25.97 27 240.25 237 96.21 27 400.00 237 265.50 27 400.00 237 265.77 21		620 3572.56 \$ 796.29 67 2506	16.22 6/1 18 MENN YORK MJ5 6/1 Tuesday Sto	ACTIVE STOCKS III TRADIES cicks Citise Change • Volume (in total price on day	NO ACTIVITY Landle 28. INFRIGOR LOO N 3. INFRIGOR	50 +51 20 72 1816 53 24 1 NO 38 +402 148 240 47 77 +40 110 140 11 16 7 NO 70 -40 640 722 47 129 CM 10 +41 340 240 47 141 +m	ORTH AMERICA NADA RONTO Ului 23.4 Com 51	SI 198 18 StandB 219 TipOut 78.75 +1 Inghts 61 +1 Wilson 31 30 - W Ocep 107.51 =1 Worth 28.80 4
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Company Mile price Change Volume High Low Company Mile price Change Volume High Low on day on day on day.

ActivCard USS -0.125 0 8.25 3 Lamout & Hangle USS2.25 -0.25 4400 30.125 2 Afteur Systems USS2.37 -0.125 11755 11.125 9.375 Merce Inf USS2.5 -0.25 4400 30.125 2 Company Frid -0.5 15000 18 14 Iff USS2.25 -0.25 0 25.125 22 Dr. Solomurk ADS USS2.6 125 40.125 0 8.375 16.875 Protect: USS2.875 40.125 0 5.125 2 Dr. Solomurk ADS USS2.6 125 40.125 0 12.25 5.375 Solveller-Bechmann Solf 133 40 1133 800 Imagenetics USS1.0 125 40.125 40.125 12.75 10.125 Tapcal Inf Schizzon +20 2000 3318 3005 Proces for 23/1787. Please note that mid prices are now used to calculation highs and lows. Information about EASDAO can be found on the Web site as: HTTP://WWW.EASDAO be EASDAO offices are located in Brussela (Tel. 32-2 / 227 65 20) and in London (Tel. 44-171 / 469 9990).

Dow tests water above 8,100 level

US stocks opened strongly taking the Dow Jones Industrial Average through the 8,100 points level, but prices pulled back around midsession, writes John Labate in funds. New York.

By early afternoon, the Dow had stood 38.09 higher at 8,099,74 while the Standard & Poor's 500 index was also stronger, up 5.55 at 939.53.

The technology-heavy Nasdaq composite was also higher, up 6.35 at 1,570.21. Tuesday's rally in the stock and bond markets was sparked by Federal Reserve chairman Mr Alan Greenspan's Humphrey-Hawkins ing gained \$2% at \$59% on testimony, which left investors expecting no near-term

Mr Greenspan's comment that the Federal Funds rate will need to be changed at some point to foster sustainable growth and low inflation", eased the market's fears that the Fed would raise rates at its next meeting in mid-August. "This eliminated the major concern people have had in this market." said Mr Bill Meehan, at Prudential Securities

Investors have adjusted their expectations of earn- of 47.5m shares. ings upwards since the start

gains from restructuring tile trading following reports operations, said Mr Meehan. Many portfolio managers are also helping to buoy the market as they try to raise the performance of their

Many funds have reported a gain on the day of 198 lags with the growth in the points or 1.58 per cent at S&P 500, and continue to buy into the market when it dips. Foreign investors are also expected to continue buying into the US market.

Financial markets also received a boost from a better than expected budget surplus for June, released by the Treasury Department up 1.6 per cent to 131.04. Tuesday afternoon.

Among Dow stocks, Boenews that the EU would not prevent its planned merger with McDonnell-Douglas. IBM was also a strong gainer, adding \$24 at \$105%. Among technology companies, Microsoft slid \$% to \$143 ii. while computer maker Dell Computer rose \$5 at \$165. Semiconductor chip points for the first time to maker Intel also gained, up \$11/4 at \$90.

TORONTO held on to its gains at midsession, avoiding the volatility seen on Wall Street and the TSE-300 composite index was 39.54 higher at 6,753.83 in volume

SAO PAULO slumped \$324 an ounce. The gold more than 3 per cent and index fell 10.8 to 982.4.

European markets gave a

suphoric response to the transatlantic economic signals and the firm dollar. Sharp rises were recorded in many of the leading bourses after a string of recordsetting performances.

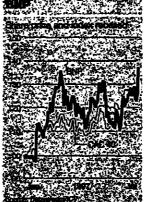
By early afternoon, the PARIS closed at a record with the CAC-40 index 82.40 higher at 3,003.53, its first close above 3,000 points. The day's peak of 3,026.99 was also an all-time high. The advance was fuelled

by speculation in banking stocks after Deutsche Bank said that it was considering an acquisition in the French banking sector. French bank stocks rose

sharply, with both Credit Commercial de France and Banque Nationale de Paris suspended briefly after surging by the maximum 10 per cent permitted. CCF closed up 7.8 per cent at FF1282, while BNP was up just over 10 per cent at FFr274.90. Other financials included Paribas, up 7 per cent at FFr430.70, and Bancaire, up 4.6 per cent at FFr748.

However, Mr Ian McEwen Lehman Brothers described the speculation as "very ill-founded. We see an outside, outside chance of one deal making sense, but the chance of a bid for BNP is next to zero."

Other leading stocks included Renault, which closed up 8.6 per cent at FFr179 after reaching an ear- of 1997 as rallying markets lier high of FFr187.80 in



4.5 per cent at FFr616; and LVMH, up 4.3 per cent at

A record-setting FRANK-FURT pulled back from its best levels late in a session which saw overcapacity trigger problems that halted trade for several hours. The Dax index, up 4.2 per cent at 4,406.09, put in its best performance this year while the Ibis-indicated Dax finished up 87.18 at 4.384.82, having peaked at 4,441.09.

Dresdner Bank forecast the Dax would top the 5,000point level in the next two weeks, but predicted a level of 4,500 points by the end of the year. Banks remained in the

spotlight. Deutsche Bank soared DM5.50 to DM126,50 after the bank beat forecasts with a 27.5 per cent iump in net income in the first half provided a diet of profits. "It has rained porridge in

was planning to liquidate its

non-bank financial affiliates.

The broker later denied the

reports. Sakura Bank fell

Y27 to Y824, but Nomura

Securities rose Y40 to Y1.530.

mixed. Some leading issues

Blue-chip exporters were

FTSE Actuaries Share Indice THE EUROPEAN SERVES Open 10:30 11,00 12:00 13:00 14:00 15:00 Close FISE Burdhack 100 2758.96 2762.11 2768.21 2768.49 2768.47 2770.06 2772.78 2774.62 FISE Burdhack 200 2747.08 2748.22 2747.45 2742.51 2748.17 2748.30 2748.47 2747.71 Jul 22 Jul 21 Jul 18 Jul 17 Jul 16

the markets this year and trast, rose by only SFr185 to we had the right spoon," Mr SFT14,515 as investors Rolf Breuer, chief executive, switched to Novartis. told a news briefing.

Euphoric bourses set fresh records

In speciality chemicals, The Bavarian bank merger Clariant was SFr45 higher at candidates remained a SFr1,050, benefiting from the strong market. Vereinsbank release of sales above expecshot up to an intraday peak tations while Ciba SC, of DM125 and by the close it SF17.50 higher at SF1141. had managed to hold on to a was supported by news it would swap its PVC heat starise of DM11.50 at DM111.50. HypoBank shares rose biliser business with Witco's. Banks were also sharply DM79.60. Among the insurhigher. UBS rose SFr44 to ers. Allianz climbed 37.50 or SFr1.698, SBC SFr15.50 to

8.2 per cent to DM493.0. SFr421, and Credit Suisse The decision to leave the SFr12.25 to SFr204.75. composition of the Dax index unchanged until next year best levels after a day of was seen as negative for Adiluge turnover, estimated at L3,005bn, on domestic and das, which had been tipped to join. The company lost foreign demand and with DM7.80 to DM212. Karstadt liquidity being diverted from dropped DM24.50 to DM680 the fixed income markets in spite of being allowed to into equities. The real-time remain an index constituent. Mibtel index was up 235 at

ZURICH jumped 3.4 per cent as banking and drug issues, especially Novartis, led the way. The SMI index rose 192.8 to 5,896.6 in heavy turnover estimated at about SFr3.6bn.

Novartis rose SFr137 to SFr2,446 on positive expectations ahead of today's firsthalf sales figures. Roche certificates, by con-

cent at an all-time high of 988.48 after reaching 1,006.26. The focus remained on financials and high-tech stocks. ASM Lithography led the high-tech sector with a gain of F1 16.40 to F1 178.20. off an early high of F1 185, after better-than-expected first-half earnings.

ABN Amro was the most ictive stock, trading up F1 1.60 at F1 49.90 in turnover of 14.9m shares as it is favoured by private investors among financials. ING rose Fl 1.80 to Fl 104.

Aegon was up F16 at F1161 and Fortis Amey Fl 4 at FI 98.90. BRUSSELS advanced to

another record close with the Bel-20 index up 62.04 or 2.4 per cent at 2,601.56 after peaking at 2,606.88.

VIENNA jumped 3.2 per cent to close at a record high, boosted by the strength in neighbouring markets and high turnover in preferred shares of Bank Austria after Salomon Brothers upgraded its recommendation on the stock.

The ATX index climbed 44.34 to 1.452.78 as Bank Austria preferred rose Sch21 to Sch436. OMV, the oil and energy market leader, was the day's best performer with a rise of Sch84 to

Sch1.740. MOSCOW climbed 4.3 per cent as foreign demand supplemented steady domestic buying. The RTS index closed 472.2 higher at 492.6.

East European fears may be overstated

July 18 % Change % Cha

1.142.49

828.08

727.01 243.58

1,005.98 232.21

87.93 82.54

228.04 198.05

103.71 128.90

256,93

282.18

139.74 149.26

182.80 55.88

95.33 341.78

291.45 129.11

208.52

122.14

615.68

167.49

01.44

237.27

1997 over week on Dec '96.

+20.2

+30.8

+37.3 +23.8 +38.2

+19.3 +6.8 -22.3

+31.8

+1.0

-23.7

+47.0 -32.6

+21.2 -20.4

+41.0

-15.8

+13.7

+55.9 +35.9

+11.8

Rast European markets are counting the cost of the extensive flooding over the last fortnight, but analysts believe western concerns may have been overstated, writes

One of the worst-hit districts has been Wroclaw, one of the main industrial areas in Poland. Four stocks are still suspended from the stock market – paint manufac turer Polifarb Wroclaw, engineer Rafako, electrical equipment maker ZEW and chemicals group Viscoplast - because their plants are flooded. Mr Douglas Helfer at Foreign & Colonial says that the situation is far from clear, but he believes the effects may be less than first thought, "For Poland, the mos pessimistic estimates I've seen are of a % per cent fall in GDP and a 1 per cent rise in inflation." he said.

On Tuesday the Polish government

atocia

Chile Colombia

Mexico Peru²

nda⁷

Indone

Malaysia Pakistan^a Sri Lanka

Hungary' Israel Jordan Morocco

Potenci[®] Portugel

South Africa

Turkey**
Zimbebwe*

Venezuela³ Asia China¹ South Korea

approved plans to borrow \$600m from the World Bank and the European Investment Bank to help finance relief schemes, but analysts do not believe the move will have a

significant effect on the budget. The Wig index, which stood at 1,585 on July 10, recovered slightly yesterday to

In the Czech Republic, where the government has estimated the damage at between \$1.45hn and \$2.9hn, Mr Helfer said the concerns were wider than the damage caused by the floods. "It's really too soon to listen to rumours," he said. The PX50 index closed down 1.5 points at 501.2.

that the government's leader

in the lower house of Con-

gress, Luis Eduardo Magal-

Bovespa index was showing

SANTIAGO rose strongly

following the testimony by

US Federal Reserve chair-

man Alan Greenspan and

increased confidence that

Brazil's exchange rate will

remain stable. At mid-session, the IPSA index was

SOUTH AFRICA

Johannesburg pulled ah

African rates.

as interest rate-sensitive

stocks rose on the positive

outlook for a cut in South

16.7 to 7,446.9 while indus-

trials broke through 9,000

the back of the announce-

ment of a R2bn radio tech-

nology contract from tele-

communications utility

Telkom. Golds edged back

in response to the bullion price which hovered around

close up 47.4 at 9,032.3.

The overall index added

Industrials also gained on

haes, was about to resign.

12,428

close at 1,476, up 7.4 points on the day.

Allianz, Germany's largest insurer and the group with the greatest exposure in the badly-hit Oder valley, said it expected flood claims could amount to hundreds of millions of marks.

700,725.03

1.621.55

2,481,45 394,58

11,422,38

92.03 97.10

309.80 208.64

131.42 176.45

674.67 140.48 311.40

1.352.73

172.45

97.17

223.57

1.079.02

Local currency terms

Johr 18 - % Change % Change

1997 Gver week on Dec '96

+12.0

27 02

-3.1 +5.6

+2.4 0.6 -3.6

+21 -02 +30

+7.4

Emerging markets: IFC weekly investable price indices

+43.3

+0.2

+11.0

TOKYO erased earlier while blue-chip exporters succumbed to profit-taking.

The Nikkei 225 average fell 26.51 to 20,130.51 after moving between 19,999.80 and 20,324.03. Stocks opened moderately higher on posi-

However, investors took institutions, including Sanyo Securities, a second-tier bro ker, and Sakura Bank which denied incurring big losses on derivatives dealings.

shares to an estimated 315m. Declines led advances 662 to 393 with 183 unchanged. The Topix index of all first-section stocks fell 1.97 to 1,529.63 and the capitalweighted Nikkei 300 was off 0.13 at 297.96. In London, the ISE/Nikkei 50 index rose 5.81 to 1.658.41.

Bangkok drops 4.3% as baht tumbles

ASIA PACIFIC

Worries about the Thai baht's plunge to a record low against the dollar prompted a sell-off in BANGKOK as investors anxiously booked profits. The SET index closed down 28.50 or 4.3 per cent at 631.28 in turnover of

fell prey to profit-taking Banks, which lost 6.9 per while others recouped losses cent, and the finance sector, to rack up substantial gains toward the day's end. TDK down 6.7 per cent, were among the day's biggest losfell Y70 to Y9,030 and Pioers. Thai Farmers Bank topped the active list, falling Y2,900. Among semiconductor-related issues, Advantest Btll to Btl07 while Nava Finance fell Bt2.75 to Bt25.25

gains to fall for the third consecutive session. Renewed concerns about the financial sector's health hit writes Gwen Robinson.

tive sentiment generated by New York's overnight surge and the rise of Nikkei-225 futures prices in Chicago. profits toward the middle of the day and selling accelerated on fresh rumours about problems at several financial

Volume rose from 279m

Sanyo Securities fell Y14 climbed Y170 to Y9,990, ahead to a record high, tak- ened index-linked stocks. to Y155 on reports that it Kvocera Y10 to Y9.290 and Tokyo Electron Y20 to

> Pharmaceuticals continued to gain ground. Sankyo 292.03 points or 1.9 per cent. rose Y60 to Y4,360 after reaching an intraday record of Y4,430. Takeda Chemical Industries rose Y30 to Y3,430, Yamanouchi Pharmaceutical Y20 to Y3,130 and Taisho Pharmaceutical Y60 to Y8,340.

In Osaka, the OSE average neer Electronic Y20 to fell 39.80 to 20,937.73 and volume rose to 27.8m shares.

ing its lead from the overnight performance of Wall Street. The Hang Seng index finished at 15,738.81, up

MILAN finished below its

an all-time high of 15,163

Among individual stocks.

Parmalat, the recently

underperforming food group,

jumped to a high of L2,730

before settling back to close 184 higher at L2,682. AMSTERDAM closed

sharply higher but off its

closed up 27.86 or 2.8 per

early peaks. The AEX index

after a peak of 15,393.

HBSC, under profit-taking pressure recently, rebounded HK\$6 at HK\$265. Property issues were generally higher on hopes that local property prices would soon bottom out in response to the steady outlook for interest rates.

KUALA LUMPUR rose 1.6 per cent as local and foreign institutional bargain-hunters HONG KONG powered snapped up recently weak- stocks.

The KLSE composite closed 16.06 higher at 1,034.07. KARACHI dropped 2.5 per

cent, hit by profit-taking after the 12.6 per cent surge of the previous seven ses sions as foreign investors rediscovered the market. The KSE-100 index lost 50.64

BOMBAY jumped 1.55 per cent on a third day of strong overseas demand. The BSE-30 index rose 64.84 to 4.251.13 as investors targeted multinationals and software

A New Century in Publishing

5 & 6 November 1997, Royal Lancaster Hotel, London

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- unique proposition? Re-engineering the business for a new media future:

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- What skills, partners, business models will be required? The role of mergers and alliances?
- The role and impact of 'non-traditional' players on the
 - structure of the industry?
 - Prospects for proprietary on-line services Bookselling in the new millennium

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Trinity International Holdings pic Mr Halsey Minor Chairman and Chief Executive Officer

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REGIONAL MARKETS				ESDAY J	ULY 22		_			MONDA	Y JULY	21 1497		DOI	LAR M	
Figures in parentheses	US	Day's	Pound			Local	Local	Gross	US	Pound	••		Local			Year
show number of lines of stock	Dollar	Change %	Sterling	Yen Index	DM. Index	Currency	% chg	DN. Yleid	Dollar	Sterling Index	Yen	DM Index	Currency & Index	2 week 6 High		age (approx)
<u> </u>	- ALIGA		HALEN		H NOW	1100	G , G ,	T FORM	N AVAX	A KARA	a report			11001		-
Australia (76)		-0.1	205.21	169.61	218.72		0.2	3.65	232.43	205.38	170.19	217.07	208.48		190.90	
Austria (25)		-0.4	175.10	144.72	186.62		0.5	1.76	198.78			185,64			174.70	177.34
Belgkm (29)		0.3	222.98	184.30	237.66		1.2	2.94	251.38			234,77			206.85	209.39
Brazil (30)		7.9	257,78		274.74		8.0	1.26	270,08		197,76				170.26	
Canada (127)		0.7	192.81	159,36	205.49		1.1	1.68	216.50			202,19		220.92	154.12	
Denmark (32)		0.1	357.60		381.14		1,0	1.35	403.87			877,19			303.46	
Finland (28)		-0.4	264.68	218.76	282.10		0.5	1.84	300.63			280.77			188.67	191.92
France (84)		0.8	200.72		213.93		1.6	2.42	225.12			210.24			186.94	188.12
Germany (59)		1.8	203.88	168.51	217.20		2.7	1.30	226.55			211.58			168.70	170.81
Hang Kong, China (68)		-0.3	489,35	387.93	500.24		-0.3	2.87	532.41	470.45		497.28		539.63	407.55	418.96
Indonesia (27)		0.9	197.57	163,29	210.57	354.67	-0.9	1.83	221,44			208,81	357.95	254.90	183.62	
ireland (17)		1.0	325.70	270,02	348.20		1.8	2,74	365.82		257.57				270.08	274.45
Italy (54)		0.7	91.58	75.69	97.60	136.21	1.5	1.74	102.82	90.85	75.29	96.02		105.42	73.26	78.14
Japan (485)		-0.3	120,70	99,76	128.64	99.76	-0.5	0.79	136.94		100.27			150.97	107.57	148.83
Maleysia (107)		-0.3	41B.04	343,87	443.42		-0.1	1,44	471.88			440,70			460.21	550.48
Maxico (27)	1564,90	1.5				14307.71	1,1	1.30					14144,71			
Natherlands (19)		2.4	372.64	307,99	307.16		3.3	1.98	411,62	383.72	301.41			427.AB	279.88	296.08
New Zeeland (14)		-1.4	78.09	64.54	63.23		-0.3	4.01	89.58		85.58	83,64		95.47	80,77	80.87
Norwey (41)		0.3	281.20	232,41	299.70	322.77	1.0	1.90	317.11	280.20	232.20			326.60	248.04	
Philippines (22)		0.5	132.86	100,82	141.61	213.12	0.4	0.96	149,49		109.46			214.07	138.54	211.45
Singapore (42)		0.2	341.52	282.28	364,00	250.91	0.1	1.17	385.39	340.53	282,19				380.08	394.71
South Africa (44)		-0.1	316,15	261.31	336.96		-0.1	2.41	358.02		262.16		357,85		301.49	349.01
Spain (33)		2.0	227.23	187,81	242.18		28	2.23	262.01	222.68	184.53			276.05	171.91	175.54
Sweden (46)	507.15	1.9	448,43	370.63	477.83	585.27	2.0	1.78	497.92		384.60	465.02		511.9 5		841.77
Switzerland (33)		0.7	273,85	226,34	291,87	284,23	0.9	1.18	307.72	271.91	225.32		281,64	329.59	231.69	240.81
Theland (42)		-1.9	53.96	44,60	57.51	73.31	-0.3	4.22	62.20	54.98	45.55	59.00	73.50	155.94	47.55	155.94
United Kingdom (213)		0.7	281.74	232,88	300.29	281,74	8.0	3.57	316.30	279,49	231,61	295,40	279,49	325.28	231.01	231.30
USA (542)	378.80	2.3	334.94	276,83	355.88	378.80	2.3	1.62	370.37	327.27	271.20	345.90	370,37	378.67	254.78	257.65
Americas (825)	049 47	2.3	308.09	052.00	200 00			444	600 E1	000 44	A42.62	64h 44	002.00	047.04	200 20	000 OF
			247.14	252,99	326.23	201.52	2.3	1.62	338.51 276.52	299.11	247.87				233.09	238.05
Europs (716)	400 00	1.1	379.31	204,27	263.41	264.10	1.6	2.43		244.84	202.48			284.44	204.71	208.99
Nordio (150)	453.00	1.1		313.51	404.28	494.08	1.6	1.70	424.30		310.69		427.39	437.88	291,45	297.58
Pacific Basin (881)	-150.80	-0.3	136.15	112.53	145.11	113.94	-0.4	1.25	154.43	136.46		144.23		163.63	127.18	161.59
Euro-Pacific (1597)	ئائىمىيىـ مەمەر	0.5	182.48	150.83	194.49	170.42	0.7	1.92	205.40	181.50	150.40			209.12	173.65	180.40
North America (769)	-2000	22	325.11	259,54	347.67	369.05	2.2	1,62	360.88	318.88	264.25			369.86	248.65	251.75
Europe Ex. UK (500)		1.3	222,83	184.17	237.48	247.48	2,0	1,79	248.84	219.88	182.21	232,40			185.65	188.72
Pacific Ex. Japan (396)	-300275	-0.2	270.82	223,84	266.64	274.37	-0.1	2.72	306.97	271,24	224.77	286.68	274.69	320.65	268.97	279.61
World Ex. US (1825)	-210.22	0.6	185.88	153,63	198.11	177.28	0.6	1.90	208.02	184,69	153.05	195.21	175.87	212.89	176.94	181,69
	.258.76	1.4	226.80	189.10	243.85		1.6	1.57	255.08	225.39	186.76	238.23	228,70	260.1B	199.58	202.51
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INVESTMENT INTO THE UK

The Conservatives put Britain ahead of the rest of the EU in attracting foreign investment. Stefan Wagstyl looks at what Labour must do to maintain the momentum

New tests for money magnet

flowing stronger than ever. Despite fears that increase ing international competition for investors might divert some of it to other European countries, foreign direct investment has in the last year come to the UK in record amounts. The coun-

try's stock of direct investment rose £9.3bn to £160bn. more than three times the level a decade ago, according to government figures released last week. The year's new projects

South Korea to build an electronics assembly plant and semi-conductor factory in South Wales. There has also been a record crop of expansions of existing investments - including announcements for plans for new Britishmade models by Toyota Motor. Nissan Motor and Honda Motor, the Japanese car makers.

ranged far beyond the utility industries, notably in ways of measuring flows, a spate of acquisitions by US including mergers, acquisigroups of regional electricity companies and in heavy investment in telecommunications networks. They are also investing in ever more sophisticated operations in the UK - such as research and development and marketing and management centres – a prime example is the laboratory that is to be built in Cambridge by Microsoft, the US software company.

The new Labour government wants to make the most of increased interest in R&D since it squares with its is benefiting from these ecoown plans to create more high-skill high-pay jobs in

An estimated 500,000 UK jobs have been France in third place. created by foreign companies since 1979

Britain. Mrs Margaret Beckett, the trade and industry secretary, says: "The thing that has always worried think there are very encouraging signs that as inward investors have become established here they are starting to see Britain as a place with real potential for creativity and development."

Labour says it is just as committed to promoting foreign investment as the Conservative adminstrations that presided over its ated growth, particularly in unprecedented expansion an advanced economy such during the past 15 years. Mrs Beckett's first overseas trip as minister was to Japan, the source of the largest flow of new investment in recent years, to deliver a personal message of welcome to the chief executives of top Japanese companies. The secretary of state says

Labour remains wedded to the pro-business policies it developed before the olection, notably commitments to macro-economic stability. co-operative industrial relations and investment in education. The government also plans to maintain co-operative ties with the rest of the EU - a key attraction for the many foreign companies that are using the UK as a base for their European busi-

Labour's message, particularly its emphasis on stability, has been welcomed by foreign companies. Mr Cegill Shin, president of the European subsidiary of Samsung, the South Korean group with electronics interests. says: "Probably the most important factors are the stability of the UK economy and the UK government's supportive approach to inward investors."

Like other countries, the

The tide of foreign to companies planning job-investment into Britain is creating investments. The rising level of grants has led to criticism of the system, particularly in cases where different British regions have found themselves competing for the same scheme. Labour is reviewing the aid regime as part of its comprehensive spending review but drastic changes seem unlikely. Ministers take comfort from the fact that the UK generally offers potential investors less than other EU countries.

There is little agreement include Europe's biggest on the precise level of for-ever inward investment - eign direct investment, the £1.7bn project by LG of because there is no requirement in the UK to report investment plans. Companies often prefer to keep quiet about investments in new products or processes for fear of counter-attack by their competitors.

Continued on page 8

The government's figure of £9.3bn for the year to the end of March compares with a much larger total of US\$32.8bn for the calendar Foreign companies have year 1996 published this month by the Organisation realms of manufacturing to for Economic Co-operation invest in British service and and Development. Different tions and joint ventures account for at least some of the discrepancy.

But whatever its absolute

level there is no doubt that foreign investment around the globe has soared in the 1990s as companies respond to the pressures of international competition and the opportunities created by worldwide economic deregulation. Britain, with its wellestablished tradition of economic openness combined with membership of the EU. nomic forces more than most other countries. According to the OECD, the UK is second only to the US among developed countries in attracting direct investment and a long way ahead of

The other side of the coin is that the UK is also a leading source of external investment for other countries, again second only to the US. In recent years, the outflow of direct investment has comfortably exceeded inflows (see OECD chart, page 3). In 1996 the UK invested \$43.7bn overseas against the \$32.8bn inflow. This is not a sign of ecopeople about inward invest-ment into the UK is it is just Britain's openness to interscrewdriver assembly. I national trade and invest-

> Inward investment needs to be kept in context. The money foreign companies invest in the UK amounts to under 10 per cent of total industrial investment, running at around £100bn on the government's figures. External investment is not a substitute for internally generas the UK. Labour has recognised the significance of local efforts to stimulate investment by its plans to establish regional English development agencies (RDAs) to mirror those that already operate in Wales, Scotland and Northern Ireland. Mrs Beckett says that the RDAs' prime role will not be competing for foreign investment but in harnessing local resources.

Nevertheless, the benefits of foreign investment go far beyond the capital involved. The government estimates that since 1979 nearly 500,000 UK jobs have been created by overseas businesses. Workers at foreign-owned companies tend to be better paid and produce more per capita than the national average and to stay in their jobs longer than most other British employees. About half the output of foreigncompanies is owned

Moreover, foreign companies have brought new technologies, skills and management practices to the UK. which have helped to improve Britain's international competitiveness. The benefits are most apparent in the motor industry, where UK also offers financial aid Japanese car makers have

exported.

raised standards at hundreds of component plants. In electronics, US, German, Japa-South Korean companies have helped to rebuild an industry in which Britain was struggling to maintain an international presence. With Britain's role as a magnet for foreign investment so well established it is difficult to see what might deter more investment in future. Already some 60 per cent of investment is re-in

Thursday July 24 1997

IN THIS SURVEY

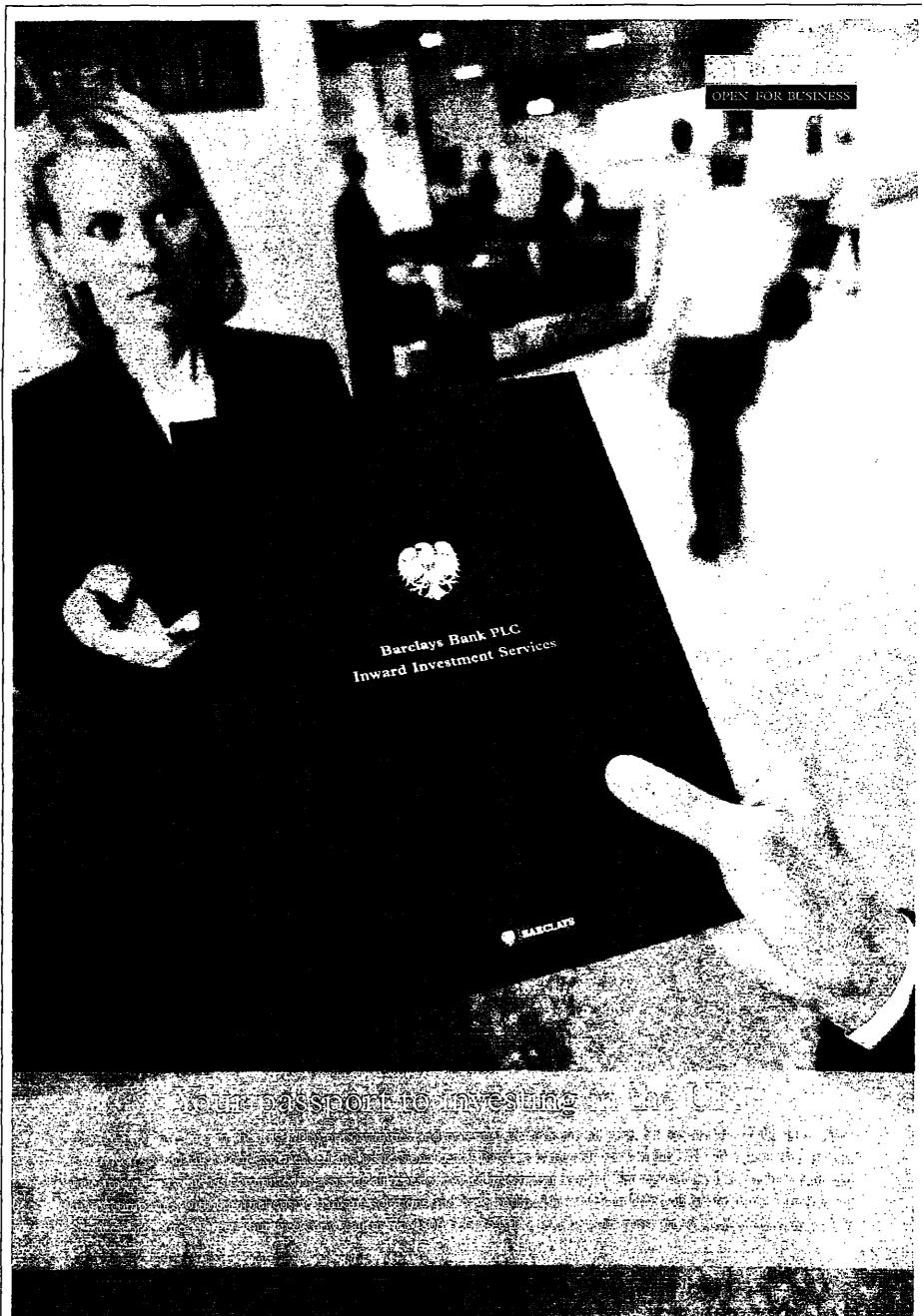
Damned if we do, damned if we don't? The implications of European economic and monetary union for investment in Britain

. New Labour, new role? Margaret Beckett, secretary of state for trade and industry, talks to the FT about the government's hopes for FDI page 3

.' The big four: how Japanese, Korean, American and German companies see the UK pages 4, 5 and 6

A site to remember? The sophisticated marketing used to lure overseas investors to British business parks page 7

Service aces: the American influence on two of the UK's deregulated Industries



ant tumbles

As far as FDI is concerned, Emu is both a liability and an asset for Britain

European economic and monetary union is bound to trigger big economic changes in the EU. One of the most difficult to assess is the effect it will have on the strategies of foreign inves-

The issue came to the forefront in January this year, when Mr Hiroshi Okuda, president of Toyota, the Jap-anese car manufacturer, said that the company might shift its European investment strategy away from the UK if the UK stays out of Emu. Mr Okuda seemed to imply that Toyota would step up its investment in continental Europe, while keening the car maker's UK investments at roughly cur-

Mr Okuda's off-the-cuff remarks triggered a debate about the effect of Emu on direct inward investment in the UK. At issue is whether the UK's advantages as Europe's most favoured location for foreign investment could be eclipsed by a decision to stay outside Emu.

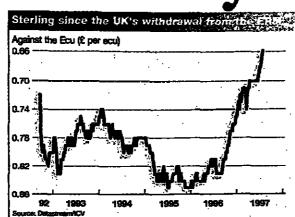
Opponents and supporters of the UK's membership of Emu both invoke inward investment in defence of their position. If they were both right, the UK would simultaneously enjoy lasting investment inflows and suffer damaging outflows.

Either scenario is plausible. Supporters of Emu have frequently maintained that Toyota's warning could be symptomatic of increasing nervousness among foreign investors about the UK staying out of Emu.

The concerns have been temporarily cast aside by the recent Franco-German disputes over Emu, the botched attempt by the German government to revalue the gold reserves in order to the meet strict economic qualifying criteria, the socialist victory at the French election and growing political opposition against Emu inside Germany. These events have tarnished Emu's attraction in the eyes of foreign investors, who might even reward the UK for staying out.

But unless the project is derailed, the question of in the economy and political whether a successful Emu gridlock. With a greater could damage Britain is

The UK is the largest target market for foreign investors in the EU, accounting for about 40 per cent of the total, a proportion that has been surprisingly constant since the second world war. variable will be the relative finely balanced.





This proportion declined substantially - to about 15 per cent - during the period between 1958 and 1973, when the UK was outside the then European Economic Community. After the UK joined in 1973, it went back up to its pre-EEC levels.

The reason behind the decline was related, to a found that the north-east large extent, to the way foreign investors perceived the two region's relative economic prospects. Back in 1958, the EEC's prospects were judged to be largely positive, while the UK had entered into a prolonged phase of relative decline

against the rest of Europe. Whether the 1958-1973 depends on foreign investor's perceptions of today's situation. It appears that attitudes towards the UK participating in Emu, and have changed - perhaps many, France, Italy and Spain have struggled with low growth, high unemployment, structural bottlenecks degree of labour market flexibility and deregulation, the UK is viewed, even in large parts of continental Europe. as relatively attractive. Emu

alone is unlikely to change The single most critical

"EDWARD STOBART,

ARE THERE GOOD

REASONS FOR BEING

BASED IN CUMBRIA?"

"LOADS"

degree of exchange-rate sta-bility of the pound and the euro. The greater the volatility of sterling, the lesser the attractiveness of the UK as a location for investors hoping to export into continental Europe. Since its ejection from the exchange-rate mechanism, the pound has been extremely volatile.

A closely related issue is the stability of the euro itself and of the economies of the various EU member states. If Emu turned out to be eco-nomically successful and popular, the UK would almost certainly be paying an opportunity cost in terms of staying out. If Emu were proved to be unstable and the UK stayed out, by contrast, inward investment into the UK could conceivably increase.

The single currency could not only lead to a change in inward investment between nations, but also within

Mr Andy Pike of the Centre for Urban and Regional Development Studies at the University of Newcastle, has region could face bigger risks than the rest of the country if the UK stays out.

He says the north-east is a moderately peripheral region by EU standards, in that it has benefited from inward investment but failed to build up distinctive industrial specialisms. "If the IIK remains outside

experience repeats itself Emu, these processes of regional specialisation may further concentrate within the regions of member states cause the north-east to eral," he says.

If the UK stays outside Emu, foreign investors might instead turn towards Ireland, which shares some of UK's attractions as a haven for inward investors, such as language and labour market flexibility. There is no question that

by staying out the UK would risk some economic losses. At this point, however, the opportunities and risks are

STATE AID FOR INVESTORS • by Stefan Wagstyl

Granting and groaning

There is growing concern that the policy on grants is unfair and anti-competitive

The new Labour government is reviewing the regime for distributing state aid to potential investors, following criticism of escalating costs and complaints of unfair competition. The system is unlikely to be abandoned, given its success in helping to attract foreign companies to the UK and the extensive inducements offered by other EU countries. But the scheme could be reformed to target poor districts of the country more

Mrs Margaret Beckett the trade and industry secretary, says the government's comprehensive spending review embraces aid for industry. She declines to comment on the outcome but says she is concerned about the rising costs of aid: "If you get into an unwise spiral of financial bids and counter-bids, then everybody ends up getting less for their money." (See interview, opposite.)

European Commission officials have also raised concern about the levels of aid. Their main worry has been the use of public finances to support state-owned enterprises such as Air France, the French carrier. They have also protested at the lavish grants to companies investing in eastern Ger-

The more modest use of funds to attract non-EU companies into the EU has generally attracted less criticism from the commission, not least because almost every EU member offers aid. Therefore, when one EU member tries to launch a case claiming illegal state aid against another, it is often faced with a barrage of criticism about its own

When, in 1995, for example, the UK challenged an award by the Irish government to help the sale of state-owned Irish Steel with aid worth about £39m, Dublin raised questions about London's £71m grant to Ford Motor of the US for the modernisation of the Jaguar plant in Coventry. The UK government dropped its opposition, though British even been reversed - as Ger- become even more periph. Steel, the UK's largest steelmaker, is still pursuing the fight in the European Court of Justice where it seeks to have the grants declared ille-

> Britain's financial aid scheme is not designed for attracting foreign investment per se but investment in general. Mr Andrew Fraser, chief executive of the Invest in Britain Bureau, the government's investment promotion agency, says there is no discrimination in



committee, fully 50 per cent favour of foreign investors or in favour of new invesof the manufacturing jobs tors. Existing companies whether British or foreignowned - are also eligible for aid for financing expansion. Even modernisation schemes that "safeguard" existing jobs qualify. For example, Ford this year won the promise of about £15m aid for a £100m renovation of the Halewood plant in Mersey-side, even though the factory is laying off workers and reducing capacity. The aid tors). will help protect the jobs of the remaining staff.

However, the main source of government funding -Regional Selective Assistance - is available only in assisted areas, poor regions of the country, and is principally concentrated in Scotland, Wales and the north of England. A separate scheme operates in northern Ireland, with especially generous benefits. Regions eligible for in north east England. the scheme have attracted more foreign investment in relation to the size of their economies than other regions. According to a 1995

report by the House of Com-

mons trade and industry

created by inward investment in the 10 years to 1992 went to Scotland. Wales and northern England - even though these regions accounted for only 18 per cent of existing manufacturing jobs. Scotland and Wales, with just 14 per cent of the population, have in as many years secured half the total RSA grants (for both foreign and British inves-Recent beneficiaries

include LG, the South Korean group, which is receiving £200m aid for a £1.7bm investment in a semiconductor and electronics plant in South Wales, which will employ 6,100. Hyundai, also of South Korea, has received aid after building a £1bn microchip plant in Scotland, as has Germany's Siemens for a £1.1bn microchip plant The successes of RSA-eligi-

ble regions have led to complaints from other areas about aid. Sir Brian Corby is chairman of the East of England investment Agency. which covers east Anglia

and the eastern Midlands, which has little RSA-eligible territory. He says: "In some regions, the approach is too broad brush. Virtually the whole of Scotland is an assisted area. We need a more refined approach in identifying areas for assistance. The east of England doesn't get its fair share.' But Mr David Rowe-Bed-

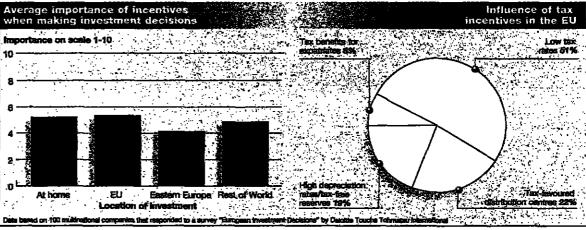
doe, chairman of the Welsh Development Agency, says there is no need for "a root and branch reform". State aid plays a part in inward investment decisions but other factors also matter such as location, transport links and the quality of the potential workforce. However, state aid must not be used to transfer jobs from regions where aid is provided to others where it is not, says Sir Brian, adding "that is nonsense"

Nevertheless, the growing competition for projects has, over the past few years, led to increases in aid. The government's main criteria for disbursing support concerned the number of jobs to be created, combined-with the amount of capital the

investor is putting into the scheme. Precise figures are difficult to obtain because they are kept secret by the government, and because they come from different sources, including local and regional authorities and the DTL Nevertheless, there is little dispute that LG has been awarded a record amount per job of about £30,000. This compares with about £16,000-£17,000 per job at the Siemens plant near Newcastle. DTI officials argue that the UK still pays out considerably less than EU rivals. Some of the highest grants have been paid in eastern Germany, where awards spiralled to the point that the European Commission intervened in the case of DM780m aid offered to Volkswagen, the car maker. for two plants employing 2.300 in lower Saxony. This is worth over DM300,000 per job, or in excess of £100,000. Brussels and Bonn are in dispute over the commission's attempt to try to block DM241m of the aid.

International comparisons are difficult since governments can influence a project's finances in many ways other than grants. For example, local authorities can provide land at below-market prices. Or a trunk road that was going to be built any-way could be routed to suit a potential investor and cut the cost of access roads. Ireland, where the corporate tax rate is just 10 per cent. or they can be offset with a complex range of regional Another support mechanism largely hidden from public view, is loan guarantees. which are often given in Germany by regional statecontrolled banks.

It would be difficult to establish an EU-monitoring system that covered all the possibilities. The biggest incentive governments have to keep a lid on spending is that untrammelled grant-giving creates a victous spiral that eventually damages all countries. It also exposes the authorities to criticisms from established companies that believe that aid to newcomers promotes unfair com-



LEASING • by Stefan Wagstyl

Plant for hire – no previous owner

Britain leads the EU in convincing investors of the merits of asset finance

Banks are redoubling their efforts to sell to foreign investors the advantages of sing, which is one of British industry's most popular financing techniques, but is far less developed in many

other countries. Leasing accounts for about one-third of the total financing of machinery and equipment in British industry. For big projects such as semiconductor plants the figure is as high as 90 per cent. Until about three years ago, companies planning to invest in Britain were rarely given information about the cost advantages of leasing until they had firmly committed themselves to the UK and had embarked on detailed financial preparations.

But both bankers and government officials realised UK because of the way the that the attractions of leasing could be made into a strong selling point for allowed to write off against investing in the UK. So tax 25 per cent of the value banks and the government of any investment in plant to promote the merits of on a declining balance basis. leasing to potential investors even before they had decided on the UK as their preferred one, then 25 per cent of the location. Mr Alistair McGregor, an executive with This works well as an invest-Hambros Bank, a merchant ment incentive for compabank that has a specialist team in leasing, says: "We showed that leasing was an including new inward invesimportant pool of money available to investors." Mr the first years of a project, McGregor urges clients to while they are starting take leasing into account operations. So they have no when assessing the overall profits against which to offcosts of a British-based investment, alongside the ments. Companies are theremore obvious factors such as fore allowed to transfer the government grants, tax tax allowance to finance regimes, and the costs of companies making profits. loans and equity. He also while leasing is available in the industrial group making other countries, the method

New equipm	ent lea	sing busine	58	7.77
for 1996 and com	parative f	gures for 1993 to	1995 (Ecu br	Ó
	****	1994	1995	1996
UK	. (7.06	18.85	19.67	24.28
Germany	19.88	19.22	21.62	22.89
Plance	9.10 3	2.89	. 9.72	9.97
Italy	6.28			8.94
Spekt 1			3.23 S	374
		2.65		
Sweden	1.37	1,81	2.05	242
Switzerland			2.19	
Ireland	0.98	1.05	1.16	2.18
Austria				
Beginn.	121	1.68	4.47	1.76
Czech Rep	0.48	0.82	0.88	1.33
Portugal	142	3.00	1.06	1.28
		0.73		
Other	1.00	238	2.89	
- Danmerk, Polend, Hun Russia, Bulgaria	gery, Stonel	ds, Firland, Greece, Mo	Source: Letters	ng, Siovenia, j Lite Megazine

British tax system operates. In the UK, companies are agencies stepped up efforts and machinery every year This means that they can write off 25 per cent in year rest in year two and so on. nies which are making profits. But new investors, tors, rarely make profits in set the cost of their invest

The finance company buys tells potential investors that the machine and leases it to the investment. The finance ing charge reflects the fact that the finance company is benefiting from the 25 per cent tax allowance.

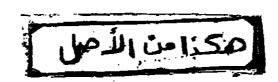
Mr McGregor estimates that using leasing can reduce the cost of a £100m investment by perhaps £10m. depending on the terms of the lease, borrowing costs and other conditions. The advantage could be reduced by changes to lease taxation proposed in the Budget. which the leasing industry is trying to challenge. But even if the changes are passed into law, leasing is expected to retain significant advantages for many projects. Leasing is not a panaces Its effectiveness depends on

a careful calculation of EU states in leasing. Accord-likely future profits on a ing to Leasing Life, a trade project. Very early profits magazine, leasing in the UK reduce the advantage. Also, last year totalled 24.28bn big international companies ecu, compared with 22.89bn with existing UK operations ecu in Germany and under may sometimes find it 10bn ecu for all EU states. cheaper to borrow directly in The dominance of Britain the bond markets or to raise and Germany reflects their funds in other countries.

unds in other countries. tax regimes. Britain's posi-Nevertheless, the advan-tion ahead of Germany is tages in the UK are so signif- also due to the UK's sophistiicant that Britain leads other cated and liberalised finan-

The largest providers of lease finance are the high street banks and building societies, including Barclays Bank, National Westminster Bank, and the Abbey National. Smaller companies that offer specialist advice include Hambros, Dresdner Kleinwort Benson, and Babcock & Brown, an affiliate of





3 INVESTMENT INTO THE UK

INTERVIEW

Screwdriver assembly out, science in

The government wishes

Britain to be seen as a become established here they are base for R&D as well as real potential for creativity and development. People who came in

For Mrs Margaret Beckett there is a clear difference between the new Labour government's inward investment policies and those of its

Tory predecessor.

While much of the approach remains the same, Labour is changing the emphasis from promoting the UK as a low-cost production base to a centre of "quality, added-value, high technology and market leadership".

"One of our principal worries about the government we replaced was that it seemed to us to be drifting dangerously and headlong into the argument that we competed fundamentally on lowest cost irrespective of what happened to quality." says Mrs Beckett, the trade and industry secretary, whose department is responsible for inward investment.

"Our essential argument is that this was a counsel of despair for Britain...It seemed to us that Britain had no choice but to aim for quality, added-value, the exploitation of the best technology, and looking for markets in which we can be among the leading players."

Mrs Beckett says that this approach to inward investment reflects Labour's belief in promoting education and investment across industry as a whole. It also goes "with the grain" of foreign investors' own strategies, in raising the quality of the activities they carry out in the UK. Worries Britain was little more than a base for "screwdriver assembly plants" have been swept away by continuing investments in research and development in the UK and in

deepening links with British suppliers.
"I think there are very encouraging

s owner

signs that as inward investors have become established here they are starting to see Britain as a place with real potential for creativity and development. People who came in initially with less demanding requirements are starting to see Britain as a good place for better things in the future, says Mrs Beckett, whose Derbyshire constituency is near a Toyota Motor

However, Mrs Beckett would not like to have her emphasis on promoting investments with high added-value lobs to be mistaken for a lark of interest in other types of project. "It would be a mistake to try to be too constrictive. I would not like to give any impression that we are seeking to discriminate against any potential investor." She adds that some schemes that might seem modest at the start can become more attractive as they develop over the years.

Mrs Beckett has lost no time in

seeking to reassure foreign companies that Labour will remain as committed to welcoming investment from overseas as the previous government. Her first foreign trip was to Japan, the biggest source of new foreign investment in the past 20 years. In a keywote speech there she pledged to continue welcoming foreign investment, to maintain economic stability, and to promote co-operative.

industrial relations.

She also promised to approach EU relations in a business-like manner in contrast to the rhetoric generated during the general election campaign. One hugely important area where assurance was sought and given was in our relations with the EU. There was clearly a good deal of anxiety, about the developing debate in the UK and a good deal of concern it would do harm to the interests of the business community... If that climate of debate continued. Investors wanted



Margaret Beckett amouncing new Invest in Britain Bureau figures last week. She says investors are now seeing Britain as a place with real potential for creativity and development.

reassurance that the new government had a positive attitude to the EU and I was able to give it,* she says.

The secretary of state adds that concerns that Labour might take an ideologically dogmatic approach to economic policy are wide of the mark. This is a government which is very practical in its approach to business concerns. I don't think the Labour party has ever been as dogmatic as it's

She says Labour will take a practical view of European monetary union. For

this is what business - including the foreign investor - wants: "My impression is that like everybody else they don't know what the deal [over Emu] is, so they don't know where our best interests lie. But what they most want is that the government's approach to the euro will be governed

approach to the euro will be governed by a hard-headed assessment and that when that assessment is made we shall be anxiously seeking the views of the business community."

Mrs Beckett believes there is no sign of foreign investment in the UK have become more welcoming.

However, we were neither late nor reluctant partners and one of the assets that we have is the duration of our relationships."

Mrs Beckett acknowledges there has been concern about the rising level of

changes it has wrought in Britain they

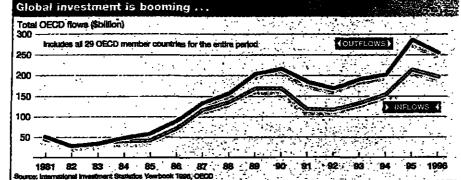
was beener acknowledges there has been concern about the rising level of government subsidies for job-creating investments. She says that subsidies do not on their own make schemes happen but do play a role when location is being considered. Subsidy policy is being examined as part of the government's comprehensive spending review. Mrs Beckett will not be drawn on the possible outcome, but says that the review will address concern about subsidies. "If you get into an unwise spiral of financial bids and counter-bids, then everybody ends up

getting less for their money."

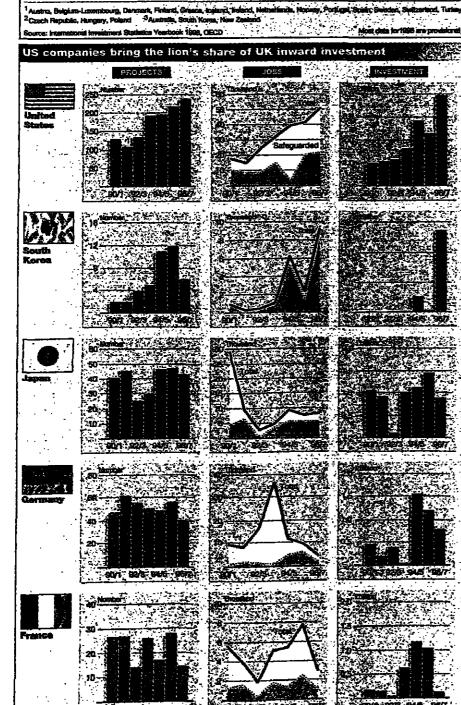
The government would be "very unhappy" about companies moving from one part of the UK to another simply to secure subsidies, she says. More broadly, the issues need to be discussed both within the UK and in the EU.

Mrs Beckett sets considerable store by the development agencies that Labour is planning to establish to promote regional English economies. These would be based on Scottish Enterprise and the Welsh Development Agency, which have done much to attract foreign investment to Scotland and Wales, Like them, however, their primary role would not be to promote foreign investment per se, but to encourage overall economic development. "If the RDAs were to see their principal jobs as attracting inward investment that would be a very big mistake because there is the whole world of the business community in which they should

Stefan Wagstyl



Direct investment flows in DECD countries (\$int)		INFLOWS			(CUTFLOWS)	
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UK make a war and a war and	·- 10,497	22,810	2/8	4	288	43.717
Germany	1,548	12,050	3,243	-17,134	38,573	27,883
taly A	2,238	4 3 4 4 TO S	***	经实现的	TO MEN	HUMAN
France	10,975	13,357	14,383	, 10,896	10,694	17,734
Other W. Europe	47 267	200	34.72	3. DIES.	W-1994	. BELDA
E. Europe 2 .	3,888	10,874	5,371			- 6
US A COMPANY	49,780	80,298	LANGE AND LANGE	4. (1.0)	10 July 1	× 88,30
Canada	7,259	10,739	~ 6,698.	7,414	5,747	7,58
Mexico	10.972	÷ . 8969 ±	Li PRESENTATION		Table A	s Spirit A
Japan	888	. 41	222	. 17,938	22,628	23,46
Other Asia-Pacific	. 7 5 01	18965-	Jeone,		200	ADA
Total OECD	152,790	215,104	198,326	- 202,093	288,994	. 259,176



OUR £25 MILLION RE-INVESTMENT ON MERSEYSIDE IS DOWN

diminishing. She says that, with 60 per

cent of the inflow accounted for by

is increasing: other EU countries,

very keen to secure projects.

companies already established in the

UK. Britain has a solid base on which

which once seemed less interested in

attracting non-EU investors, are now

"The figures do fluctuate from year

to year. We are operating in a slightly

more difficult environment because a

few years ago other EU countries were

not actively competing for inward

to build. But she adds that competition

Attracting major companies is one way to test the mettle of an area.

But the ultimate compliment is when a company is s impressed it increases its investment there.

So thanks, Kodak, for the compliment.

After nearly 50 years on Merseyside, the American glant decided to re-invest and expand here, making it their biggest chemicals operation in Europe. They have found the operation to have one of the most productive workforces of any of their plants in Europe, and the level of job applicants is always of the highest quality.

"There is a sense of energy and 'can-do' mentality in our workforce which minors our own philosophy."

So what's so special about Merseyside? The grants at local, national and European Union levels? Not one but three Training and Enterprise Councils? The number of good sites? One of the most sophisticated telecommunications systems in Europe?

The co-operation between new and existing investors to pool their knowledge of the region?

Well, yes, yes, yes, yes and yes.

But there's something on Merseyside only Merseyside can ever have - one and a half million Merseysiders.

As existing investors like Barclays, Ford, QVC and General Motors have discovered, the people here have adaptability and enthusiasm running in their veins.

They've taken to training and retraining with a vengeance. Contributing to productivity levels that are

12% higher than the national average.

"New working practices have been implemented quickly and efficiently."

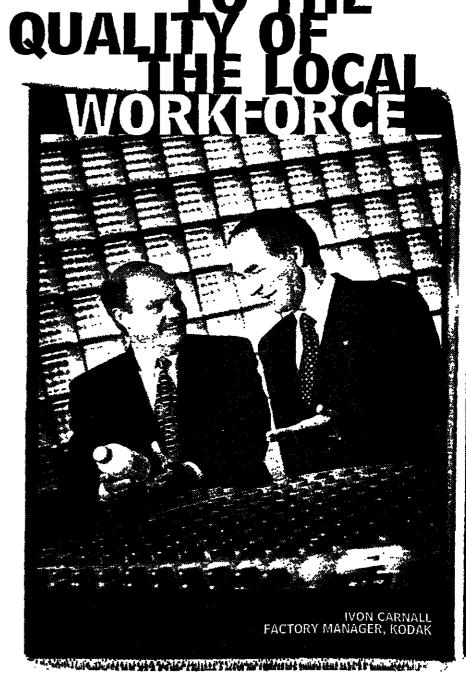
And the workforce at Kodak? They've an enviable reputation for meeting quality standards and adopting new management systems.

For instance, a new business development of supplying photographic materials to hundreds of mini-labs throughout the UK has already achieved a Perfect Delivery level of 98% OTIFNE (On Time, In Full, No Errors) when 90% is regarded as excellent. They are not however resting on their laurels as they strive for a perfect 100%.

That's why Kodak has poured an extra £25 million into their Kirkby plant in the last 3 years.

So whether you're in the photographic business or not, one thing's for certain.

Developing companies need look no further than Merseyside.



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A'pool of talent

THE VIEW FROM JAPAN • by Bethan Hutton

Old names, new projects

The big investors are renewing their ner nest month in omce, she in st supaness can have set up shop in the UK, 25 commitments. A look at factors that explain why

first Japanese manufactur- nomic and monetary union, more than £200m of new ers arrived in the UK. When an understandable concern the first three companies for Japanese companies, as more design work being carmade their investments in the main aim for many of ried out in the UK - some-1972, that small step passed almost unnoticed. Now, Jap- closer to European markets. trying to encourage. anese businesses in the UK are hard to miss: more than creating more than 65,000

for trade and industry, Mrs style and quality.

Margaret Beckett. During Nissan, which was the her first month in office, she first Japanese car maker to Japanese industry that the years ago, announced in Jannew government was as uary this year that it will investment-friendly as its make a third model at its predecessor. She also faced Sunderland plant from the questions about Labour's year 2000. This will not only It is now 25 years since the attitude to European eco- create 800 new jobs, with their UK operations is to be

Increasingly, however, British-made products from 260 Japanese companies Japanese companies are recently announced an addihave set up operations, being shipped elsewhere. including back to Japan. Nissan makes the English ori-The importance of Japa- gins of its Primera model a nese investment in the UK selling point back in Japan was demonstrated by the the image of the Jaguar and the Mini have helped give the new secretary of state British cars a reputation for

introduce more sophisticated technology. As one British investment promotion official points out, the UK cannot expect many more massive first-time Japanese investments, because all the large Japanese companies already have operations in the UK. The main activity now is ongoing reinvestment by the big names, and new investments

investment, but will lead to

thing that the government is

investment created 54 jobs. The Japanese presence in the UK is now firmly established, but what keeps the flow of new money coming? A well-qualified, flexible labour force is one attraction often mentioned, but equally important is the language factor. English is the first foreign language for most Japanese people: finding

Other manufacturers are tional £200m investment to expand and upgrade its Scottish semiconductor plant. This will increase production by 50 per cent by the end of next year, as well as

man-speaking staff is not impossible, but is an extra On a more personal level, the Japanese expatriate infrastructure is well-established in the UK. There are Japanese schools, restauby smaller companies. Last rants, newspapers, and Japanese-speaking doctors, all of year, the average Japanese which make it easier for families to adjust to a foreign posting.

The key to many recent investments, however, is the Japanese system of developing close, long-term relationships with suppliers: a large number of recent investments has been by smaller companies, setting up UK subsidiaries to service the managers capable of dealing same leading car or elec-

directly with French or Gertronic companies they deal with at home.

Two car parts suppliers are a good example of this. Yachiyo Industry, which makes fuel tanks, sun-roofs and other body parts, and Yutaka Giken, which makes exhaust systems and brake parts, both recently announced joint ventures in the UK with Honda and Unipart, the British car parts company. Both companies work closely with Honda in Japan, so extending that relationship to the UK has

been a logical move. Joint ventures are usually the investment vehicle of choice for smaller companies taking their first step overseas: a local partner can help them through the entire pro-

cess, from choosing locations to dealing with the bureau-

any announced in January that it would make a third model at its Sunderland

Koden Electronics is a medium-sized Japanese firm that designs and makes navigational equipment, such as radar and GPS. In January last year, Koden invested £750,000 in a UK joint venture with a British partner, Navico, to manufacture small radar devices for the worldwide market.

The new business, Konav. is in an assisted area, but Mr Yoshimasa Ito, president of Koden, says: "Grants and incentives are important, but secondary." The main reason for choosing to invest in the UK was the company's long-established relationship with Navico. together with the availability of quality labour, says Mr

Although the inward investment path is now welltrodden, and help is available, language and culture can still present problems. There are big differences between British and Japanese practices. Yutaka Giken says differing wage structures and welfare systems mean that it is finding it difficult to set up a joint ven-

Also, circumstances can change between the planning stage and opening up the new business. A prime struggling at the moment example is the effect of exchange rates. "When we decided to invest, it was fident and innovative in the about Y130 to the pound: now it is Y200," says Mr Ito of Koden. Currency fluctuations have forced the company to adjust its plans, but not change its mind about the investment.

Short term considerations, such as the strength of the pound, might act as a temporary deterrent to Japanese investment, but there is no sign of the flow drying up.

PROFILE Komatsu

Rising sterling, falling margins

The response of one Japanese company to the strength of the pound

Mr Keith Tipping, managing director of the UK operations of Komatsu. the large Japanese construction machinery maker, chooses his words carefully when asked to discuss the recent surge in the value of sterling. It has, he says, been making his

life "more difficult". Komatsu is the world's second biggest maker of construction machines such as excavators, after Cateroillar of the US. It set up its UK factory in Birtley, Tyne and Wear, in 1986 as part of a project to make its European sales operations virtually independent of

non-European plants. Nowadays, Komatsu's European sales total some 8,000 machines a year, virtually all of which are made in Europe. Birtley this year is expected to make around 2,000 wheeled and tracked excavators. worth some £120m at distributor prices, and the yearly figure is planned to rise to 3,000 by 2000. This is part of the company's programme to increase the whole of its European sales and production by 50 per cent by the turn of the

Komatsu also has large production sites in Hanove in Germany and near Venice in Italy. The manufacturing activities reduces the impact of fluctuations in a single

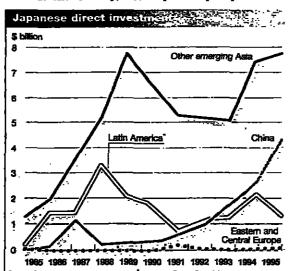
currency such as sterling. Even so, Mr Tipping is being forced to look more to overseas components suppliers as a way of balancing out the effects of the higher pound. By increasing component imports, which currently account for about 65 per cent of all Komatsu's parts purchases for its UK plant, and which become cheaper as the pound rises, the company can cut its overall

purchasing bill. Komatsu is particularly looking to step up component purchases from eastern Europe – where companies can take advantage of low labour

At present, Birtley accounts for virtually nothing of Komatsu's total purchases of east European parts for west European ants. The commany's purchasing bill from eastern Europe is projected to rise four or fivefold by the end of the century. Komatsu's lik

production target for 1997 is a steep climb from last year's total of 1,500. If it meets it it will set a new record for Birtley.

Peter Marsh



COMPONENTS PRODUCERS • by Richard Wolffe

The supplier moves next door

US and Japanese car parts makers are locating close to their clients' British sites

The headlines may be industry, the West Midlands inward investments made by from the growing investinternational car makers but the sheer number of smaller the trigger remains the huge projects by their supplier projects by customers in the companies has become bard to ignore over the past 12

Much of this investment is rationalise the number of time as encouraging the favoured few to become

For the survivors, being Solihull. close to the customer has become of paramount impor-

larger investors, smaller suppliers can cement a relation-ship around providing a better service - from product design to just-in-time deliv-

At the heart of the UK car dominated by the larger region has profited greatly ment by parts suppliers. But BMW.

Jaguar, owned by Ford, is investing £400m in building the result of the relentless its new X200 saloon in Birtrend among car makers to mingham, while BMW is spending a further £400m on their suppliers - at the same an engine plant nearby. BMW is further committed to a £3.5bn project to develop its "baby" Land Rover in

> "There has been considerable interest around Rover

Dover, an International name,

a European location.

plier companies to invest in their own right," says Mr Robert Haymon-Collins, director of regional development at the West Midlands Development Agency.

Then there is a ripple effect among the key suppliers, which want to move in their suppliers as well. These suppliers in turn look for other markets in the LIK that from the initial invest-

ment you get this snowball." Orbseal of the US, a Missouri-based producer of sealants, is a good example of this. Work with Ford in the US gave the supplier the vital link with Jaguar, which led to a £2.5m investment in the company's first European plant in Birmingham last month. Backed by a gov-

tance. By following the and Jaguar in the past cou-eroment grant of £225,000, lyst for a lot of these sup- jobs over the next five years, as the company works on the new X200 saloon.

"Our principal US customers - Ford, GM and Chrysler - have all expressed an interest for their key suppliers to become global and we have taken that on board," says Mr Ray McCluskey. Orbseal's UK manager.

"When we came to review what we were doing in and continental Europe, so Europe, it was clear we could not serve customers from the US. So we looked at different facilities in France and Spain, but Birmingham gave us the flexibility of location that we needed. The fact that we are near Jaguar is most convenient because it gives it access to us at the drop of a hat. But this also puts us close to Rover and other manufacturers."

Other US automotive suppliers have chosen to locate in the UK on the basis of production costs, more than the location. Hillsdale Tool, part of the Eagle-Picher group, wanted to establish a European headquarters for its engine damper produc-

With customers all over Europe - including Ford, Mercedes-Benz and Rover -Hillsdale looked at locations across mainland Europe. The UK proved so competitive that the UK move was combined with the acquisition of CR Elastomers of Germany, a supplier of engine dampers to Fiat. Hillsdale is now transferring the plant and machinery from Germany to its new base in Tamworth. Stafford-

Over the next four years, Hillsdale is investing £7m in the UK and creating 200 jobs. as well as sourcing £9m of

components locally. The ple of years, acting as a cata- Orbseal expects to create 200 plant moved into production

at the start of this month. "We chose the UK because of the competitive edge that we have in the UK," says Mr Tony Parr, managing direc-

"Our labour costs are a lot lower than they are in Europe, and so are our raw material costs. We may be with the strength of the pound, but we are very con-UK as far as our workforce

The process of closer contact between suppliers has been taken a step further down the supply chain by TRW Steering Systems, part of the US automotive group. With a long-established base in Resolven, Neath, TRW has successfully encouraged its own suppliers to launch new operations alongside its plant on Wales's first automotive supplier park.

TRW says that eight suppliers are looking to move to the park, including a newlycreated joint venture between TRW and Toyoda Machine Works of Japan. The £10.7m joint venture manufactures pumps for power steering systems, and will create 200 jobs in the

next three years. "We wanted to have our suppliers right next door,' savs Ms Alison Evans, financial director of TRW at design a product, they can be involved at an early stage in case there are any quality

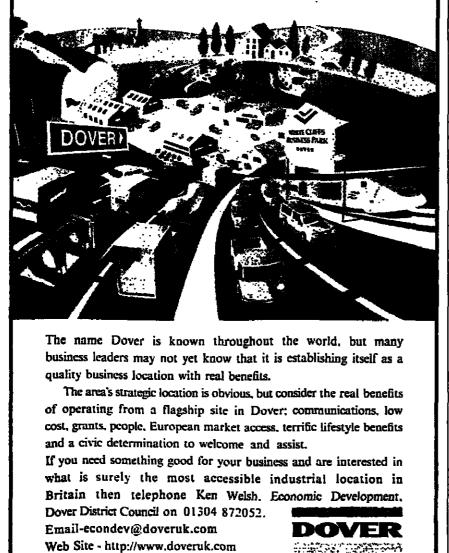
"It also means we won't have so much inventory. Above all, it helps because we are a first-tier supplier and some of our suppliers do not get the interface with



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PROFILE LG Electronics

Creating Wales's silicon valley

The impact of the South Korean group's £1.7bn Newport project will be huge

A milestone in Europe's biggest inward investment project will be reached this October when LG Electronics, part of the LG Group of South Korea, opens the first phase of a massive construction project in Newport in south

The display systems coming off the production line for use with personal computers will be the first products of a £1.7bn project agreed last year that should eventually create 6,100 jobs.

A 250 acre site to the west of Newport will require 14,000 tonnes of steel and 61,000 cu metres of concrete in establishing a network of factories for LG Electronics and its sister company LG Semicon, one of the world's biggest microchip companies and another part of the LG Group.

The complex, the size of a small village, should be operating fully around 2002. It was announced last July after nine months of negotiations between LG and the Welsh Development Agency, the government organisation seeking to bring inward investment to Wales. At the time it was hailed as one of the most prestigious high-tech schemes in Europe over the

A year on, Mr C. B. Kim, managing director of the UK arm of LG Electronics, says both the display systems and semiconductor parts of the project are on already well under way, with LG planning to have about 1,000 employees in Wales by the end of the year, most of them people living in or around Newport. By December 1998, the figure should go

Everything is going reasonably well," says Mr

His big worry is keeping track of the costs of

says that he is "concerned" about the sharp rise in

sterling over the past year. If the pound maintains its current levels, LG will almost certainly suffer from seeing its products from south Wales made significantly more expensive in export markets compared with what appeared likely when the project was agreed.

Of the total investment, £450m is being spent on the LG Electronics part of the operation, which as well as making display monitors will make cathode ray tubes for use in these products and other components. while £1.3bn is going on the semiconductor production facility.

The display screen and tube plants will employ 4,400 people while the more capital intensive microchip unit will provide work for 1,700. LG estimates that about 15,000 people will be directly employed by companies supplying the two parts of the operation when it is fully operating. The LG Electronics part

of the project will start this year with display monitor production. Tubes and other essential components will be shipped from Korea. Next year, the scheme will slip into higher gear, with the colour tube plant on the site starting up and providing tubes for the display factory.

About the same time, two other units on the site, making components called deflection yokes and fly-back transformers which are required for the display products, will start up to make the complex more sufficient in making its own parts rather than requiring these to be bought in from outside.

By 2000, the plant should be making 2m display monitors a year, most of them destined for use with personal computers made by companies such as Compaq or Apple.

Output of TV tubes around that time is scheduled to be about 3.3m a year. Of these, 2m will be used on the site; another 1m

sold to other makers of TVs and computer displays. The remaining 300,000 are expected be shipped to another LG factory already operating in north-east

production. Annual sales from the LG Electronics part of the operation should reach £410m by 2000, and about £450m two years later. About 70 per cent of the output is expected to be exported. The semiconductor part of the complex will start up later than the LG Electronics

the microchip production plant should be laid this year, ready for manufacturing to start mainly of memory chips by For both parts of the programme, finding the right employees is a big part of the overall

operation. Foundations for

operation. Of the 1,000 or so LG Electronics' employees who should be in place by the end of this year, 180 will be high-grade production supervisors and engineers who will be required to spend special training of between four and 19 weeks in Japan. The recruitment programme for other employees will move into top gear in September and October, when the company expects to be taking on 100 new people a week.

As for LG Semicon, 50-60 graduates are due to start work at the company this autumn. After initial training in Wales they will go to Korea for two separate three month training periods at existing LG microchip factories.

When it is in full production, it is envisaged that of the total Semicon staff in Wales, a third will have university degrees. LG is also setting up a special internship programme for graduates. Under it they will be able to gain work experience in both Wales and Korea in the semiconductor field, and when they finish their studies get the chance of a full time job with LG.

Peter Marsh



A Samsung production line in Korea: the company started a UK investment wave in 1995 when it announced plans for a £450m plant in the north-east of Englan

THE VIEW FROM KOREA • by Jack Burton

occur until after the turn of

the century when Korean

director for global strategy

Moreover, Korean compa-

nies have grown cautious

as an economic downturn at

straining their financial

Korean semiconductor

at the LG Group.

resources.

in western Europe."

The storm before the calm

There has been a surge in Korean investment over the past two

years. Can it last? When Samsung Electronics announced in the autumn of 1995 that it was building a £450m consumer electronics plant in north-east England,

it signalled a sudden wave of South Korean investment into the UK. Within the next year, Samsung's Korean rivals followed suit as they claimed different regions of the UK as their own. The LG Group announced the biggest ever inward investment project in

the UK with a huge semiconductor facility to be built in south Wales (see profile left). Hyundai Electronics selected Scotland's Silicon Glen for its main semiconductor home and fierce competition plant in Europe. Meanwhile, in foreign markets are Daewoo Electronics was already operating a VCR plant in Northern Ireland.

These big electronics projects have been mainly responsible for making the UK the leading European Union investment site for Korean companies Korean investment in the UK is estimated at \$6.75bn, which accounts for up to 65 per cent of its total investment

ects established by Korean companies in the UK are electronics industry, from audio components to advanced computer chips. ture of fork-lift trucks by Halla in Wales and a joint venture whisky business involving Jinro in Scotland. But the surge of Korean nvestment into the UK may be ending as quickly as it began. "More large-scale pro-jects are unlikely over the smaller businesses and subcontractors," says one UK that has led to sharp falls in official in Seoul. "The next prices for computer chips panies are flocking to big wave will probably not and a resulting drop in earnings. Samsung has post-

plant to its consumer eleccar makers might be intertronics factory in Wynyard. ested in establishing plants There is little immediate Having secured a firm prospect that Korea's other foothold in the UK to avoid main industries will follow possible EU trade barriers, the electronics companies in

Korean electronics compathe UK. nies see little need to expand Although Korean electrontheir facilities there for the ics companies have been moment. "We went into the aggressive in entering the advanced industrial nations UK as a means to tap into the EU market and any of the EU and North Amerfuture investments will ica, other Korean industries prefer emerging markets. depend on the growth of the European market," says Mr Korea's steel and petro-Lee Chang-suk, a managing

chemical industries have concentrated on Asia, which attracts three-quarters of total overseas Korean investments. Korean shipbuilders are staying at home.

Korean car makers have matched the electronics companies in overseas expansion, but they are establishing plants in developing countries because of their companies are suffering market growth potential and Although Korean car com-

Europe as their main manuponed plans to add a chip facturing base for the region because of its competitive wage levels and the prospect that demand will grow quicker there than the saturated markets of western Europe.

> increased competition from other European countries in offers of generous investment incentives to Korean Labour government that investors. Daewoo has decided that Poland and France will be its main European manufacturing centres. because of state support But there are concerns about from their governments. But this has not affected its plans to expand its VCR union. plant in Northern Ireland

The UK is also facing

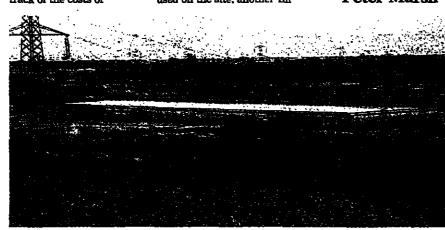
over the next few years. However, other Korean that the UK has advantages "It is easy to secure very Mr Lee.

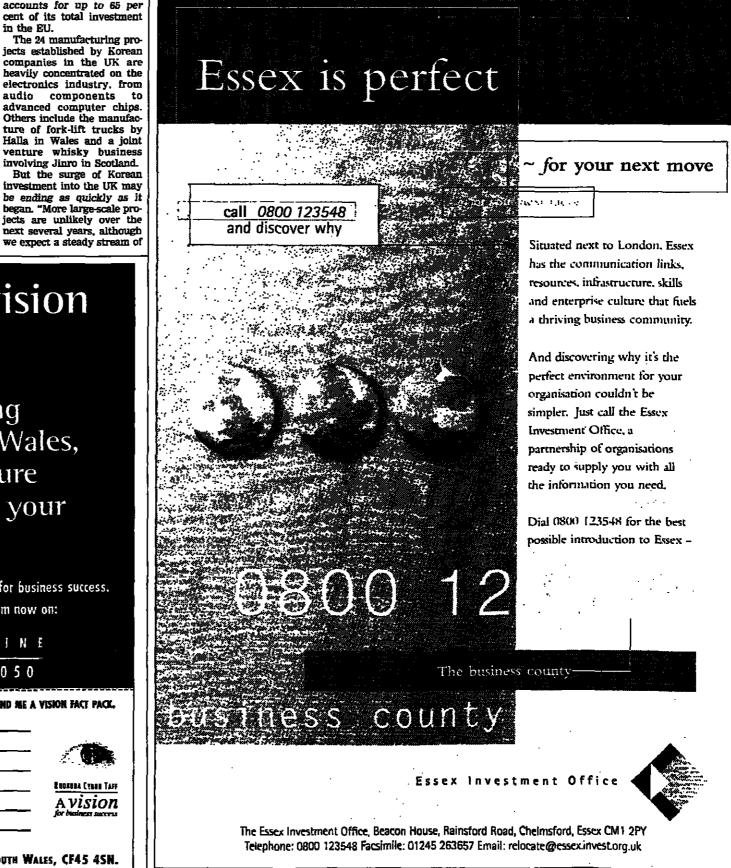
productive workers, while London's position as Europe's most important Europe, they see eastern financial centre is also an important consideration,"

says LG's Mr Lee. Equally crucial is the English language, which is widely taught in Korea unlike other European languages. This makes it easier for Korean managers to communicate with local workers in the UK.

Korean executives expect few changes under the new would discourage investment in the UK. Most have accepted the EU social chapter being applied in the UK. Britain's schedule in joining the European monetary

"The UK is our main production base in the EU, so we would prefer EMU memindustrial groups believe bership as soon as possible. But we realise that this is a that will ensure that it long negotiating process and remains their favourite we are confident that the UK investment site in the EU, will join eventually," says

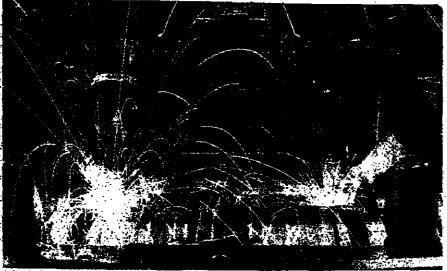






VI

Ford Motor





and poweright, a Model T. the car Ford started making at Trufford Park Manchester in 1911:

Stalling maybe, stopping no

The company's 86 years in the UK have not been without controversy but few doubt its commitment

The threatened closure earlier this year of Ford's car factory at Halewood raised questions about the company's future in the UK. Coming at a time of continuing financial losses by the corporation's UK subsidiary, together with. deep-seated concern throughout the motor industry about global over-capacity, Halewood's outlook appeared grim.

To a group that sold 6.65m. vehicles last year, a factory that produces 167,000 is relatively smallfry. In the end, of course, Ford was persuaded to keep the factory active into the next century with a £15m

It is not unusual for Ford to play tough when government and regional development hand-outs are at stake, but there was never much doubt about the company's wider commitment to the UK. It employs 30,000 people there, and few foreign companies have invested as much and as consistently in the country. The money earmarked for the new Halewood model alone is expected to exceed £100m.

that stems back to the early days of motoring. It already had a production presence in this country by 1911, when it opened a Model T embly factory at Trafford Park. Manchester.

But a much more ambitious development was to follow just over a decade later when Ford bought 119 hectares of Thames marshland in Essex - for £168,000. It then invested £5m to create a replica of its famous integrated factory at Rouge River, Michigan,

It was an act of considerable faith. Dagenham opened in 1931 in the teeth of recession. Business was so bad that in the final three months of that year Ford sold only five senger cars. Its future could only get better.

After the end of the second world war, the company began a £75m expansion and modernisation programme at Dagenham. As soon as that was completed insatiable demand for new cars prompted Ford to make a further £70m commitment in new facilities. These included a move away from the Dagenham site to a new £30m Halewood factory on Merseyside, opened in 1963. That was followed four years later by a £10.5m R&D centre at Dunton, Essex.

This consistency in spending, combined with the general decline producers such as British Leyland and Rootes, became the foundation stones of Ford's current pre-eminence in the UK car and

light commercial vehicle markets. Mr Ian McAllister, chairman and managing director of Ford in the UK, says there will be no let-up in the investment programme. "We now have a total of \$1bn (£610m)" earmarked for Britain, for projects such as the new family of diesel engines at Dagenham, the Zetec SE engine at Bridgend and the sourcing of Jaguar panels from the Halewood

press shop," he says. In addition to the Escort-based multi-activity vehicle at Halewood, Daganham has been confirmed as the lead site for the new generation Fiesta, and the next Transit van will be produced at Southampton. like the current one. Yet more money is going into component plants in Swansea and Belfast and

into expansion at the R&D centre. Equally significantly, Ford is investing substantial sums in the two struggling specialist vehicle makers it bought in the late 1980s. Jaguar and Aston Martin Lagonda. It is unlikely that either would have survived outside a big-volume car manufacturing group such as Ford. For little Aston Martin, Ford

ownership meant a new car (the DB7) and a new factory at Bloxham,

record levels. It is also, according to the company, making a profit - rare in Aston Martin's long history.

Jaguar, which Ford bought for an astonishing \$2.5bn, proved a bigger problem. It had a good image, but lousy manufacturing facilities, poor quality and no solid new-model

Mr Nick Scheele, Jaguar's chairman, recalls. "The patience of Ford during that period was incredible. Ford never once moved on the commitment for the new XJ6 and XK8 engine and the XK8 itself. We were pouring money into the company and we were losing it out of the far end at a rate of knots.".

Now Ford is investing further to: produce a smaller additional Jaguar code-named X200 - to take on the BMW 5-series and Mercedes-Benz E-class, together with a new car sembly plant at Castle Bromwich in which to make it.

Despite the growth in Vauxhall (General Motors) sales since the early 1980s and the subsequent arrival of Japanese transplants, Ford manages to retain a clear edge in the UK new car market.

It has been the leading retailer for the past 21 years, during which time its investments in the country have totalled more than £5.25bn.

Richard Feast

THE VIEW FROM AMERICA • by Richard Waters

US says 'yes, prime minister'

Americans seem to have as much confidence in Blair as they had in Thatcher

The wave of money that has flowed across the Atlantic during the 1990s says it all. From the US, the UK still looks like the best place to do business in Europe - a picture that has, if anything, been reinforced by the recent shifts in the continent's economic and political landscape.

American companies took over from the Japanese at the beginning of the decade as the world's biggest providers of foreign direct investment

The UK has been a big beneficiary of this. During 1996, half of all US direct investment abroad went to Western Europe: of that, 40 per cent went to the UK, or some \$18bn, according to the Bureau of Economic Analy-

Also, at \$143bn, the historic cost of US investment in Britain remains ahead of that in Germany, France and the Netherlands combined.

The pattern of earlier investment provides one clue as to why the UK remains such a magnet for American money, Most new direct investment comes in the form of additions to - or modernisations of - existing facilities, rather than in the form of "green field" developments.

Ford Motor, for instance, has continued to invest in the UK despite a a decision earlier this year to retrench at its Halewood plant.

As much of 40 per cent of Europe continues to end up in the UK as the company extends its existing plants, says Mr lan McAllister. chairman of UK operations. Referring to one such investment, to build a new engine for cars assembled around the world, he adds: "It's easier to expand the Bridgend engine plant than to

build a brand new facility somewhere else."

Mr Deryck Maughan, chairman of Salomon Brothers, offers a similar shaw, deputy director of the view. Like other US investment banks. Salomon has based its European headquarters in London and has good reason not to shift the base of its operations. "There is real embedded value - we are not all about to close up shop and rebuild elsewhere." he says.

It is this existing base of US manufacturing and service companies that has fuelled the most recent wave of American investment. In many industries, Europe's single market programme has made it far easier to serve the entire continent from a single base, and that has led to a greater concentration of resources as companies search for economies of scale.

This, of course, is only part of the story. The structural reforms pushed through by Margaret Thatcher, particularly in the labour market, are widely seen in the US as the foundation for the UK's success.

"It's an extremely attrac-tive place to invest," says Mr McAllister. Labour is very, very flexible, and is educated." Ford has good relations with its unions, and has seen big productivity improvements in recent years, he adds.

The UK is also benefiting from two more immediate rifts, he adds. considerations that have played prominently in the American consciousness. One has been its strong economic revival, in contrast to neighbours like France.

since becoming prime minis-Ford's new investment in ter. Mr Tony Blair was beset meeting with US financiers political and economic upheaval in France, according to one person who was present. Britain's own stability, even after a landslide election victory, was taken as read: few doubt the

"It's absolutely astonishing how positive the [US] press has been [about Blairl," says Mr Geoff Robin-Invest in Britain Bureau, a branch of the Department of

Trade and Industry. "If anything, the change of government has been seen as positive by US businessmen," he adds, "though, of course, it's still a honeymoon period."

The other consideration has been a changing perception of Britain's place in Europe, thanks to the arrival of Mr Blair. This is always a strong concern for US companies which see the country as their launching pad

for the European market. The new prime minister's approach so far has hit just the right note for busines men who want to see the UK close to the heart of Europe. but do not want to see it sucked into a catastrophically premature economic

and monetary union. "People are less concerned about the UK detaching itself from the rest of Europe," says Mr Maughan at Salomon Brothers. "The new government has extolled a more constructive policy on Europe, and doesn't have to deal with a dissident faction." Other EU countries, meanwhile, are being pushed by necessity to consider reforms that would make them more like the UK, further reducing the old

Eventually, though, there is little doubt among American executives that Britain will have to become a fullypaid up member of a European economic union. That On his first to New York belief is felt particularly keenly at a time when the strength of sterling has with questions during a eaten into the profits of companies that use the country as a base to export across

the channel. "We would certainly like the UK to move into Emu at some point in time," says Mr McAllister at Ford. "A stable currency makes planning a darn site easier. Every busiman would go for that."

THE VIEW FROM GERMANY • by Graham Bowley

There's no place like overseas

Crisis conditions at home are making German industrialists look abroad

Germany, in the last years of the 20th century, is experiencing a crisis of confidence. Unemployment, at more than 11 per cent of the workforce, is at the highest levels since the end of the second world war. There are interminable wranglings between the political parties, unions and industry leaders about able parts of their produc- of the German stock market

lems. Bitter are the disputes abroad. the tax system and the dismantling of cosy working practices and costly social

egislation. One especially hard blow to the nation's morale has been the growing wave of investment by German companies in other countries. While politicians have squabbled over possible reform at home, several of Germany's biggest companies have opted to shift size-

about the proposed reform of Daimler-Benz and BMW. two of the biggest car makers, have set up new factories in the American south: Continental, the tyre manufacturer, is in the process of shifting more of its production to factories in eastern

and southern Europe: VW. the car maker, also has production in the cheaper east. This pattern - and these companies' successes in foreien markets - helps to explain the spectacular rise

what should be done to tion to faster-growing, less to record highs at a time ment bank. address the country's prob- restrictive and cheaper areas when domestic conditions are so depressed. The country's leading industrialists who enjoy a high-profile in the German press - are every week criticised for exporting jobs abroad when their profits are so healthy; they usually answer that more jobs abroad secure safer jobs for employees at

> That Britain is, after the US and Austria, the biggest recipient of German investment, is a measure of the extent to which German companies value the business environment in the UK. In the view of many Germans, Britain - and even more so the US - has achieved many of the changes in terms of liberalisation of markets and of working practices that Ger-

many now must necessarily "While Germany is fighting with the concept of Standort Deutschland [the idea that Germany is a competitive place to do business], for many German businesses the UK is already a Standort UK," says one British banker who advises German compa-

nies investing in the UK.

According to the German economics ministry, direct investment abroad by German companies was DM38.8bn last year, down from DM52.16bn in 1995. Investment in the UK totalled DM4.72bn in 1996, while investment in the US was DM8.77bn. At the same time, foreign direct investment in Germany by companies from other countries dropped last year to a record low of DM1.14bn, from DM18.23bn in 1995. According to figures published this month by the Organisation for Economic Co-operation and Development, the industrialised countries' thinktank, Germany recorded disattracting inflows of \$12bn

The German companies that have invested in the UK investment into the UK include BMW, the car maker that bought Rover for £900m in 1994, and Siemens, the electronics and electrical group, which has built a large semiconductor plant in of the pound against the the north-east of England. D-Mark, the cost advantage BASF, the chemicals group, spent DM2.1bn in 1995 to buy attract investors to the UK. the prescription drugs arm of Boots, the UK retailer. In the finance sector, Dresdner Bank, one of Germany's big-strength of the pound there gest, paid DM2bn for Klein-

in 1995.

"We are not seeing any let up in interest coming regards to expansion of existing inward investment and new investment," says Mr Andrew Kirby, who is in charge of a new inward investment unit set up by Barclays, the UK bank, in London

Barclays has set up a dedicated team to provide UK banking services to foreign companies. "Inward investment has become so important to the UK economy," says Mr Kirby. According to the compa-

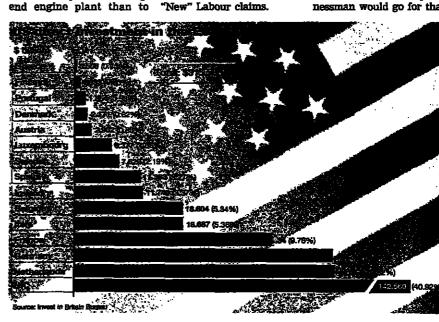
nies investing in Britain, the UK's main attractions include low-cost flexible labour, good international communications, a large consumer market and high quality financial and legal services. They are also attracted by the UK's position inside the European Union - as compared with some other low-cost locations in Asia. Mr Kirby says the UK also offers attractive corporation tax rates, while the English language also plays a part. "There are fewer barriers to entry in the

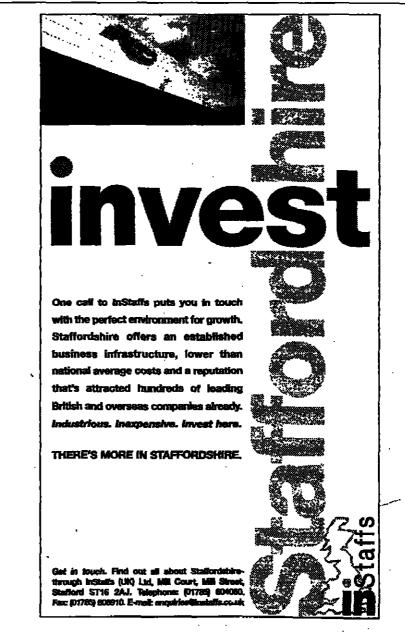
UK," he says. A survey at the end of last year by the German chamthe extent to which Germany's relatively high labour costs are a burden for German industry and why the costs are therefore a strong driving force behind investment abroad.

The survey found that 28 per cent of west German industrial companies planned to shift production abroad in the next three years. Companies planned to create at least 300,000 new jobs abroad by the end of 1999 - in large part because labour costs at home were too high. According to some measure, labour costs in the investment last year after car industry are as much as twice as high in Germany than in the UK.

One present threat to might be the strong and sudden appreciation of the pound on the foreign exchanges. But, maintains Mr Kirby, even with the rise is still large enough to

"We are aware of acoulsitions by major German companies. So despite the does not seem to be any wort Benson, the UK invest- let-up," agrees one banker.





ENGLISH PARTNERSHIPS

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ENGLISH PARTNERSHIPS

Investing in the English Regions

increased from 2,000 to

Nor is the cash limited to

pharmaceuticals. Two US

company that run medical

trials for drugs companies

have invested in Scotland.

Quintiles paid £12m for an

spending another £30m in

Tennessee-based Clintrials

announced in May it would

create 240 jobs in Glasgow,

The list goes on, with

investments in the nast 19

months alone coming from

Genzyme and Ivax, as well

Pharmacia & Upjohn (which

as US-Swedish company

has established its global

hesdou*art*ers in Windsor

Rhône-Poulenc, Japan

their UK operations.

companies Eisai, Takeda

and Yamanouchi have all

either initiated investment

or said they would expand

Will this continue? The

signs are good. London is

Evaluation Agency, which

the headquarters of the

European Medicines

and France's

US companies Merck,

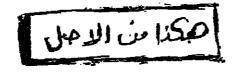
according to medical

investment lobbyists

London Medicine, is

the UK. As well,

Edinburgh site in 1995 and,



COMMERCIAL PROPERTY • by Anne Steadman

Site salesmen stress service

The regions now provide extras to convince foreign companies to move their way

Not a week goes by, it seems, without news of another big overseas company deciding to set up shop in the UK. Behind those headlines is a plethora of organisations beavering away to persuade an incoming company of the merits of their individual areas in terms of communications, workforce skills, industrial and commerical sites and government grants.

Besides the three main national agencies: the Welsh development agency, Locate in Scotland, and the Northern Ireland development board, there are some 13 main regional agencies and a range of local authority departments, along with partnerships between the private sector and local authorities.

The government agency English Partnerships has become a leading force since opening in April 1994. Working with the Department of Trade and Industry, the through the planning sys-Invest in Britain Bureau, and other bodies, it has enjoyed considerable success in its role of bringing together and co-ordinating key participants. As recent examples, it cites Samsung, Seimens, Sony and Ford-Jag alone account for more than £2hn of investment - and 7.000 jobs.

English Partnerships' complementary role is to facililict and damaged areas. operation is its activity in the A1/M62 junction between Leeds and Selby.

Working with North Yorkshire County Council and English Partnerships is to



upon-Tyne - the north-east has been particularly succ

now under construction. North Yorkshire county council economic development officer Mr Jonathan French says that the infrastructure work is expected to take a year to 15 months, after which several advance units will be built. Mr French adds that North Yorkshire is continually trying to identify other suitable

The north-east has been conspicuously successful in attracting overseas investors. The latest recruit is the US Textron subsidiary Avco Trust. The financial services company will join Nike with uar, whose new projects its European headquarters at Doxford International Business Park in Sunder-

Sunderland council prides itself on a private sector approach. According to principal economic development Typical of this side of its officer Mr Tom Hurst, it makes sure it "looks after" North Yorkshire, where it any companies moving to has just acquired 38 acres at the area. It meets a new US the Elmet Enterprise Park. executive at the airport some six miles north east of and helps that person find a house, schools, even a doctor. It also ensures that new businesses are found sites with adjoining land for expansion. The American vide the right sites and TRW automotive company, spend almost £4m in opening for example, has expanded

ioint venture between Lucas and Sumitomo, has doubled

council, adds Mr The Hurst, is always looking ahead, ensuring that more in the two or three years after the investor has made its initial commitment. It also provides ready-built space. It has 135,000 sq ft of sites and guide them speculative space available in the technology park adjoining the Doxford Busi-

> With its flagship investor Nissan now joined by a host of automotive companies. Sunderland targets the car industry hard. The council's presence is likely to be prominent at big overseas trade exhibitions.

> Attendance at international trade fairs targeting individual industrial sectors appears to be the current favourite marketing strategy. If Sunderland is to be found at automotive events. Lincolnshire County Council is likely to be at international food industry get-togethers.

Ms Jenny Gammon, Lincolnshire's marketing and development manager, aims to raise the county's profile - and also to be able to propremises. In Lincolnshire's favour, she says, are the low the site, which will benefit its plant three times in rents and land costs. And, of further from the Al/MI link recent years. Lucas SEL the course, there is the lifestyle.

Ms Gammon is also a regular visitor to the annual property exhibition MIPIM, in Cannes, "to make sure the development industry is also aware of what we have to

But if regions such as Lin-

coinshire and North Yorkshire have to work hard to sell themselves, there is a problem of a different nature in the Thames Valley. The area is a magnet for the computer industry, attracted by the closeness of Heathrow, central London and the reputation of Oxford University. In Reading, Microsoft is currently building a UK headquarters of 500,000 sq ft and Oracle has just finished 300,000 sq ft, says Mr Peter Norris, chief executive of Thames Valley Economic Partnership - an alliance between the private and pub-

lic sectors in Berkshire,

Buckinghamshire and

Oxfordshire. More recently, Computer Associates submitted a planning application for a new 250,000 sq ft European headquarters at the Appleton Park/Ditton Park site adjoining the M4 at Datchet, Berkshire. Mr Norris says that the company had been looking for a site in the area for some time, without success. His organisation was able to help by "exerting a Nokia to Scotland is cited as positive influence" on both an example by one Scotlish the local planners and the

Ministry of Defence with which Computer Associates is in negotiation to buy part of the site

The Thames Valley's "Silicon Valley" tag seems to be justified. Mr Norris notes that some 150 companies from its Californian namesake are represented in the area. More would like to come, but there is the per ception that they will be unable to find sites. Mr Norris admits that there is not room for them all; some might have to look to towns and cities elsewhere in the south-east such as Guildford or Southampton.

There is no doubt that the wooing of inward investors and the provision of sites for them in the UK - has become much more sophisticated in recent years. Some observers, though, feel that the whole process is costing too much. Several of the many agencies involved are exceptionally efficient, but there are still those that have yet to grasp the need for instant answers - and instant solutions - to investors' problems. There is, as well, often unnecessary duplication of resources and effort. The competition between Forth Valley Enterprise and Lanarkshire development agency to bring

PROFILE

Pharmaceuticals sector

A favourite tonic for foreign companies

The growing strength of the industry is one of the UK's great success stories

Pharmaceuticals is one of the UK's strongest industries. It directly employs between 70,000 and 80,000 people, and three or four times that indirectly.

Much of that success is the result of a strong domestic industry led by Glaxo Wellcome. SmithKline Beecham and Zeneca. But the UK is also the most popular choice for foreign drugs and healthcare companies, and is often used as a base for the whole of Europe.

Foreign investors involved in the UK range from drugs companies such as Pfizer of the US to more specialised healthcare businesses such as Quintiles, the American contract research organisation (CRO).

Government, agencies and companies all believe that inward investment in healthcare is at a high level. However, finding precise statistics is difficult. There are numbers on investment as a whole, occasionally

subdivided by industry.

However, these rarely distinguish between inward investment and domestic investment. In regions such as Scotland, "inward investment" might include money from English companies. Furthermore, the figures do not clearly differentiate between investment that is buying businesses, expanding businesses or building

green field start-ups. The complexity of the problem is illustrated by the experience of Astra, the fast-growing Swedish drugs company. In June 1995. Astra paid £202m for the UK and US research and development operations of UK drug company Fisons.

Last February, the company launched a £63m programme to build new laboratories at the Loughborough site. It has also built a research unit in Edinburgh and a packaging manufacturing site in Corby. The number of people it employs in the UK has risen from 1,600 to 1,750

in the past 12 months. The scale of Astra's investment is not unusual. The US company Pfizer invested £280m between 1991 and 1996 at its site in Sandwich, Kent, Over that period, staff numbers

co-ordinates pan-European drug approval and which should see its powers increased over the next few years. The UK has a strong scientific base, and although most pharmaceuticals companies locate in the south east. there are also concentrations in the north west and in Scotland. The UK drug price regulations, which reward investment with higher profits to companies, is unlikely to be changed under the new Labour government. And finally, the UK has the biggest





biotechnology sector in

Europe, a demonstration

that the business of drug

discovery is not short of

entrepreneurial energy.

Pounding away nicely

To a large extent, FDI has helped keep the British machine tool

industry alive Of Britain's total machine tool output - expected to be some £850m this year more than half will come from companies whose beadquarters are outside

Although the sums injected into Britain in investment in machine tool production are not large by the standards of other industries, the cash represents a steady drip-feed of financing that has helped to maintain a UK industry, many of whose main domestically. owned companies have either disappeared or suffered difficult times. One of the biggest inward

investors has been

Yamazaki Mazak, one of the Japan's big three machine tool makers, which set up a plant in Worcester a decade

ago, helped by a £5.2m government grant. The initial investment of £35m has been followed by extra funds for expansion. bringing total output to an estimated £80m a year. Cincinnati Milacron, the large US machine tool

company, employs 500 in its Birmingham factory, where it has in the past year invested £3m in product development and new manufacturing systems to bring out a new series of "no frills" machine tools aimed at overseas markets Output from the plant this year is likely to be more than £100m. above last year's figure of about £92m

Heller, a privately owned German machine fool company, has a manufacturing base in Redditch in the Midlands

and is studying the possibility of expanding after a successful project to recruit local people and

train them in new skills. Much of the investment in machine tool production in the UK, put at around £40m a year is met from the companies' own internal cash generation, with the British ends of the businesses having a fair amount of autonomy from

their head offices outside the country. A case in point is the US-owned Bridgeport, which runs its European manufacturing operations from Leicester. Its own series of machine tool products are designed specifically for requirements in Europe and

also for the fast growing markets in south east Asia While much of the UK industry enjoyed an upswing from 1992 onwards, helped by the boost the

weak pound gave to: been held back by sterling's 18 per cent appreciation against other important compencies. A company

particularly hit has been Matsuura, the Japanese machine tool maker that set up its first UK plant last August, just when sterling was rising rapidly. It admits that margins are suffering Mr Geoff Noon, head of

Tool Technologies Association, the UK trade body for the industry, is asting weaker growth over the next year but says the UK remains an "attractive place" for machine tool investmen This is partly due to such factors as fairly low wage costs and relatively few restrictions on working

hours and shift patterns.

statistics at the Machine

Peter Marsh



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8 INVESTMENT INTO THE UK

The privatisation and deregulation programme begun by Margaret Thatcher has created more opportunities for foreign investors. How the American commitment to customer service is making its mark on parts of two former nationalised industries

RAILWAYS • by Charles Batchelor

Refining the iron horse

The influence of a over stretches of under-used freight railway track around US railroad is helping to revive the British freight train business

Wisconsin Central Transportation, the US rail-road that has acquired most of British Rail's freight since renamed English operations, is working on plans to set up a "one-stop" deal with queries and com-

Equipped with "smart" information technology systems to answer customer calls, the centre is intended to replace the 15 different points of commercial contact that BR maintained in the

This emphasis on customer service is one of the most telling signs of the change that is sweeping the rail freight industry and of the application of "imported" ideas to a traditional business sector.

BR operated an efficient and profitable freight service for a relatively small number of bulk customers but left many smaller companies with bitter memories of poor service and unfulfilled expectations.

Established in 1987 by Mr railman, Wisconsin took and retailers.

Address .

Telephone...

Invest in Britain Bureau

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laternet: http://www.dti.gov.uk/ibb

the Great Lakes when the US railroad network was deregulated. It has since acquired routes in Canada and, in 1993, the New Zealand rail network.

One of Wisconsin's priorities after acquiring BR's Trainload Freight business -Welsh & Scottish Railway in February 1996 has been to reduce its dependence on bulk freight. It is developing its single wagon and parttrain business, which in the US accounts for 80 per cent of its revenues.

In the run-up to privatisation BR freight managers launched an "Enterprise" service, designed to revive the single wagon business from which BR had withdrawn in the early 1990s.

Although the idea came from BR managers, Mr Ian Braybrook, EWS managing director, is convinced its continued expansion, across more of the rail network and with faster trains, has been because of Wisconsin's commitment to the project. Trains running at up to

75mph, instead of the previous maximum of 60mph, are part of EWS managers' attempt to fit rail into the just-in-time schedules of Ed Burkhardt, a life-long manufacturers, distributors

Safeway this month became the first retailer to test out overnight shipm between the Midlands and Scotland.

But fitting rail into tight delivery schedules requires better communications between train drivers and headquarters. EWS is now drawing up plans for an incab radio system. Railtrack is working on

industry-wide radio links but EWS says it is prepared to go it alone if necessary. "American managers were amazed at how primitive our communications systems vere," says Mr Braybrook. In the US train drivers use

radio to tell head office if they have been delayed and even to warn the sales department if a road haulier is sighted on a rail customers' premises As part of its attempts to

provide a comprehensive service to its customers Wisconsin is backing the establishment of a UK wagon plant by the US manufacturer Thrall Car with a commitment to buy about 500 wagons a year. BR acquired no new wagons after 1981, which meant its customers had to either buy or lease their own. This was not only inconvenient but also meant customers had to commit funds to a very long-term



Back on track: BR's treight business, renamed English Weish & Scottish Railway, has recently won business from the supermarket chain Safeway

As well as acquiring new wagons EWS has ordered 250 new US-made diesel locomotives for its UK operation. Mr Burkhardt believes US manufacturers can provide cheaper, more reliable equipment because of their long production runs.

But the innovation flow has not been only one-way. reflecting the very different conditions of the UK rail market. In the US, railroads are primarily devoted to tively unknown in the US. freight business, with relatively slow-moving trains transporting goods over vast

In the UK, in contrast, the routes.

railway's main function is quently very husy stretches of track. Freight operators must fit into the passenger schedules or risk paying penalties if passengers are

One area where BR had developed considerable expertise, moving bulk shipments over short distances between say a coal mine and a power station - was rela-Wisconsin is now drawing on the experience of its British managers to develop this business on its American

TELECOMMUNICATIONS • by Stefan Wagstyl

Answering the call of competition

AT&T believes that the UK offers some of the best opportunities in Europe

While foreign-owned service companies have yet to have the same impact on the British economy as overseas manufacturing groups, their

influence is growing rapidly. The deregulation of basic services such as electricity. water and telecommunications means millions of consumers can already choose a foreign-owned supplier for their essential utilities. And millions more will be able to

One company that has capitalised on deregulation is AT&T, the US telecommunications group, which has in the past three years invested US\$500m in a UK telecommunications service husiness with an annual turnover of \$500m. AT&T was already well

do the same in future.

own in the UK before the 1990s as a supplier of international telephone services and a manufacturer of telecommunications and computer equipment that had factories in Britain. But the company has changed direction in the past few years by selling off most of its global manufacturing interests to concentrate on telecommuni cations services. In the UK, a telecommunications business that employed just 50 or so people three years ago now has 2,750 staff and is growing at the rate of about 300 jobs a year. In June, the group moved its European headquarters from Brussels to London. It also has regional offices in Redditch, Manchester and Edinburgh. "The UK has a very friendly climate for foreign investors," says Mr Merrill Tutton, who has spent the last three of his 31 years with AT&T as president of the UK operations. "The liberalisation of telecoms has created great opportunities for us. The UK leads the rest

levels of service in the Brit- Europe's call centres, he ish telecommunications market still fall short of customers needs there are many opportunities for a newcomer to make its mark in

week service is not available for most British telephone users. "My view is that the market is under-serviced in comparison with the US. I ing the British market to pay attention to service," says Mr Tutton.

Cultural differences play a

the market. For example, a

part in differing service levels in different countries, but, says Mr Tutton, lack of customer satisfaction in the UK telecommunications market mainly reflects the relatively late arrival of deregulation and competition. In other sectors of British industry there are companies that put a high premium on service - obvi-

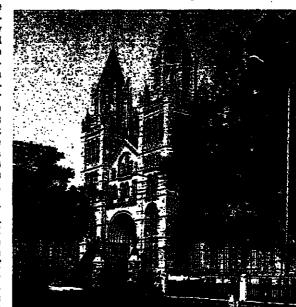
financial services company. tions services are set to grow rapidly in the UK. Already the UK accounts for half of

says, with companies moving from the Continent to the UK to take advantage of low labour costs and flexible

employment contracts. Mr Tutton says that it is 24-hours-a-day, seven days a important for companies that enter the UK market to spend a lot of time talking to customers. AT&T formalised this process by establishing a customers' advisory counwould urge companies enter- cil for senior staff from

AT&T and client companies. The company has also established links with the telecommunications industry by joining the Parliamentary information technology committee, which fosters ties between business and politicians. "It works very

well for us," says Mr Tutton. Mr Tutton says it is also important to make a good impression in the wider community by sponsorship. But companies should focus their efforts on activities ous examples being Marks & that have some relevance to Spencer, the high street employees and customers, he retailer and Direct Line, the says. AT&T supports the Almeida Theatre in Isling-Mr Tutton argues that val- ton, the Natural History ue-added telecommunica- Museum in Kensington and the European Youth Orchestra. "It's subtle but classy."



ment: as part of its attempt to raise its profile in

Tests for money magnet

Continued from page 1

vestment by foreign companies in the UK, which are most unlikely to seek new pastures unless economic conditions change drasti-

of Europe in liberalisation."

Mr Tutton says that since

is to accommodate foreign companies' needs, particularly the requirement for skilled workers. Some investors have already been including other foreign- policies.

owned plants, For example, South Wales have complained that LG, which eventually plans to employ 6,100, has recruited some of their

key employees. Staff shortages are espetechnology managers. Companies welcome Labour's commitment to raising education and training standards - but recognise that it accused of poaching staff could be a long time before from existing companies, they feel the benefits of such

The enlargement of the EU electronics companies in into eastern Europe could increase the competition among member countries to offer sites with low labour

Labour's answer is to ween Britain away from its However, the UK faces cially acute among software reliance on low labour costs some serious challenges if it engineers and information as a competitive advantage reliance on low labour costs and develop its reputation as a location for high-skill, high-pay operations such as design and development, The success of this strategy will depend crucially on the success of Labour's education policies.

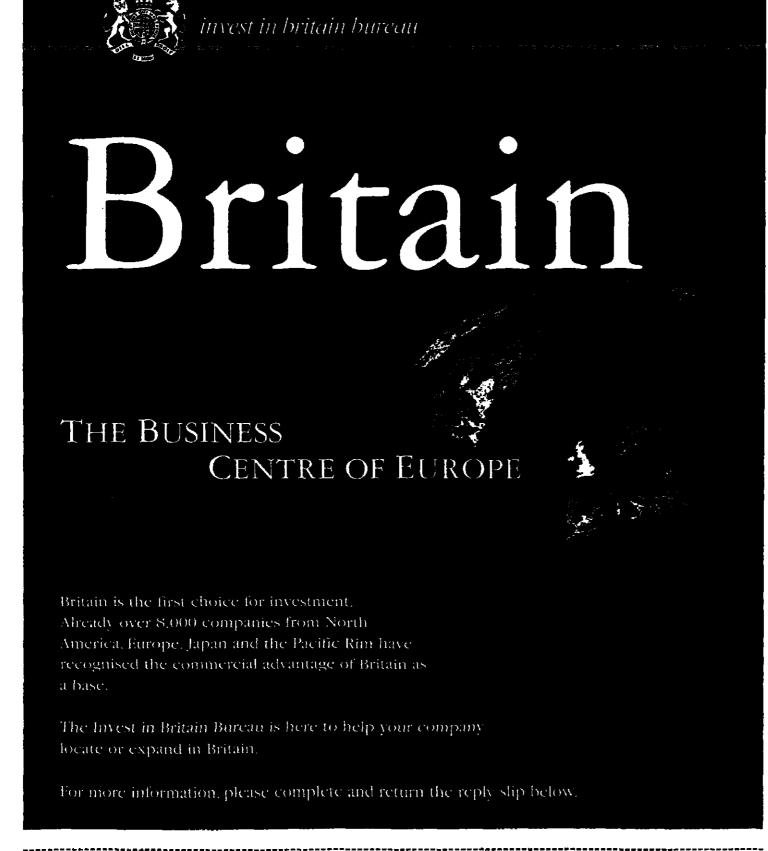


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